

**CAPACITY SWAPS BY GLOBAL CROSSING AND  
QWEST: SHAM TRANSACTIONS DESIGNED TO  
BOOST REVENUES?**

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**HEARINGS**  
BEFORE THE  
SUBCOMMITTEE ON  
OVERSIGHT AND INVESTIGATIONS  
OF THE  
COMMITTEE ON ENERGY AND  
COMMERCE  
HOUSE OF REPRESENTATIVES  
ONE HUNDRED SEVENTH CONGRESS  
SECOND SESSION

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SEPTEMBER 24 and OCTOBER 1, 2002

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**Serial No. 107-129**

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## **CAPACITY SWAPS BY GLOBAL CROSSING AND QWEST: SHAM TRANSACTIONS DESIGNED TO BOOST REVENUES?**

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**TUESDAY, SEPTEMBER 24, 2002**

HOUSE OF REPRESENTATIVES,  
COMMITTEE ON ENERGY AND COMMERCE,  
SUBCOMMITTEE ON OVERSIGHT AND INVESTIGATIONS,  
*Washington, DC.*

The subcommittee met, pursuant to notice, at 10 a.m., in room 2123, Rayburn House Office Building, James C. Greenwood (chairman) presiding.

Members present: Representatives Greenwood, Stearns, Gillmor, Burr, Whitfield, Bass, Tauzin (ex officio), Deutsch, Stupak, Strickland, and DeGette.

Staff present: Jennifer Safavian, majority counsel; Casey Hemard, majority counsel; Ann Washington, majority professional staff; Kelli Andrews, majority counsel; Tom Dilenge, majority counsel; Mark Paoletta, majority counsel; Brendan Williams, legislative clerk; Edith Holleman, minority counsel; and Nicole Kenner, minority research assistant.

Mr. GREENWOOD. Good morning. We welcome our witnesses and we welcome our guests. The Chair will recognize himself for the purpose of making an opening statement.

Good morning and welcome to the Subcommittee on Oversight and Investigations' first day of hearings on a series of highly questionable business transactions involving the Global Crossing and Qwest Corporations. In particular, this committee is interested in what are referred to in the telecommunications industry as "reciprocal fiber optic capacity transactions," more commonly known as capacity swaps.

Ideally, in a globally competitive marketplace, the ability of one telecommunications firm to purchase capacity from another improves market efficiency and shareholder value by eliminating network bottlenecks and reducing redundancies. In such cases, a firm that is experiencing increased demand on its own network can use such a purchase to meet increased customer demand. If on the other hand the telecommunications firm purchases increased capacity in a market of shrinking demand, that raises serious questions about the underlying rationale for such a purpose and in cases where two firms engage in a capacity swap in which both firms are confronting shrinking markets, that raises further questions as to the business motives behind these transactions.

It is this variety of dubious transactions in which both Global Crossing and Qwest engaged that we will examine in the course of our hearings. Were these capacity swap transactions undertaken to do new business opportunities or were they merely designed to provide the appearance of expanding business and growing revenues?

Evidence uncovered by this committee's investigation suggests that the latter is true. Confronted with shrinking markets and declining business volume, executives at Global Crossing and Qwest used capacity swaps to conceal slowing growth by booking fictitious revenue.

The importance of these swaps to the financial image these firms were seeking to create becomes clear as we examine the details. Global Crossing reported \$720 million in cash revenues from the sale portion of these capacity swaps in the first and second quarters of 2001 alone. At the same time, we have acquired Global Crossing documents that suggest a significant portion of these transactions were constructed solely to meet the company's publicly announced revenue targets. The documents suggest that it was less important to the executives authorizing these swaps what capacity was actually being purchased by Global Crossing as was the perceived need for consummating the transaction itself and booking the revenues.

Documents also suggest that the amount of capacity to be purchased and sold in these swaps was remarkably fluid, allowing dollar values that could be set as necessary to bridge the gap in the firm's ability to meet a particular quarters revenue numbers. It was not the value of the transactions themselves, but rather the urgency to complete them by the end of certain quarters that drove the deals.

As further evidence of the strategy, we have e-mails showing that the sales team was the driving force behind these deals, while the network people, those who would know whether or not such capacity was needed, questioned the rationale for many of these purchases. Moreover, Global Crossing apparently continued to engage in these questionable transactions even while an internal review was underway to determine how to dispose of excess capacity acquired through previous swaps.

This review subsequently revealed that Global Crossing lacked sufficient working capital to incorporate roughly \$1 billion of the purchase capacity into its network. In the end, this overextension cost the company dearly as it was forced to try to find buyers of this excess capacity for pennies on the dollar.

Global Crossing filed for bankruptcy on January 28, 2002, the fourth largest bankruptcy in United States history. As a result, its investors, average American families, lost \$54 billion and nearly 10,000 employees lost their jobs.

As for Qwest, the company reported revenues of more than \$1 billion from network capacity sales in 2001. But as it turned out, more than two thirds of those sales were swaps in which Qwest simultaneously purchased similar amounts of capacity from its purchasers.

Moreover, documents and interviews make plain that the company strategy was to book up front as much revenue from these swaps as possible, even though Global Crossing and others in the

industry generally booked such revenue gradually over the life of these long-term contracts.

To recognize revenue from these swaps up front, the deals had to meet certain accounting criteria, such as the inability of the purchaser to freely alter the capacity route at a later time, which made it harder to get other companies to agree to such purchases from Qwest.

What we've learned in our investigation is that in an apparent attempt to circumvent these and other accounting criteria, Qwest executives and employees entered into side agreements with transaction partners to permit the purchaser route flexibility while keeping the finance and accounting personnel in the dark.

We also have discovered that Global Crossing personnel agreed to structure these swaps with Qwest in such a manner as to permit immediate revenue recognition by Qwest so long as Global Crossing received oral promises that the contracts' terms would not be enforced.

Just this past Sunday night, Qwest announced that it was going to restate approximately \$950 million in revenue that it recognized from capacity swaps between June 30, 2000 and the end of 2001. These are the very swaps that have been the subject of our investigation and investigations by other Federal authorities.

While we do not yet know the specific findings that led to this restatement, all Qwest has said so far is that its policies and practices did not support the company's prior accounting treatment for these swaps. We believe their restatements eliminate the significance of the problems we have identified.

Although Global Crossing utilized different formal accounting methods for its swaps, its pro forma financial reporting which included virtually the full value of the sale side of the swaps in its cash revenue and earnings numbers can also be said to have misled investors and there are questions as well as to whether the Securities and Exchange Commission and the Financial Accounting Standards Board were sufficiently proactive in dealing with the important issues arising from the increased use of such swaps throughout the industry.

We will seek to address these vital issues more in depth during the second day of our hearings into these transactions next week.

Like many other telecommunications firms in the late 1990's and the first 2 years of this century, Global Crossing and Qwest were confronted with a declining market for their products and a glut in telecommunications capacity. By now, this has become a familiar, if disturbing story. In the go-go 1990's when irrational exuberance of the marketplace dictated that stocks only increase in value, meeting Wall Street's expectations, came to be seen as the paramount duty of all too many corporate executives. But that cannot justify what these firms seem to have attempted with these swaps any more than the bizarre partnerships at Enron, with the ginned up books at WorldCom. In every case, these short term efforts at hiding the true facts only serve to dreadfully distort the stock market's ability to efficiently allocate resources, the critical genius of our economy.

This number obsessed atmosphere also placed employees of these companies in untenuous positions. At today's hearing we will hear

from some of those current and former employees from both companies. They have come forward to help us understand these transactions in more detail and to grasp the importance of these swaps in meeting Wall Street's expectations.

Some also will describe their concerns with these swaps and the efforts they took to raise red flags within the companies.

Our second day of hearings will allow us to ask the high ranking, current and former executives at these companies about the legitimacy of the swaps, the impact these swaps had on their financial reporting and what, if any, steps they have taken to avoid similar situations in the future.

I welcome all of our witnesses today and I will now recognize the ranking member, Mr. Deutsch, for his opening statement.

Mr. DEUTSCH. Thank you, Mr. Chairman, and thank you for holding this very important hearing. It has been 10 months since this committee began investigating a string of corporate scandals ranging from last year's collapse of Enron to the admission of WorldCom that it improperly booked \$3.9 billion in expenses as capital costs.

Since then, we have seen the demise of other companies, Tyco, Delphi and these companies have unfolded because of questionable accounting and misuse of funds by top officers.

A new sense of responsibility and fear has entered into corporate suites and board rooms across America. These scandals have been devastating not only to employees, retirees and shareholders, but to our Nation's economy. Congress must work to reverse this trend of corporate malfeasance until ultimately all publicly traded corporations recognize that their duty is to all of their shareholders, not just to chief executives and other top insiders.

Today, this committee will be hearing testimony on two telecommunications companies where in an effort to keep the stock prices high, the chief executives imposed unrealistic revenue goals on their sales staffs at the same time the industry was facing a glut of fiber optic resources and a sharp drop in prices.

In order to meet these goals, Global Crossing, Qwest and others engaged in swaps of fiber optic capacity under which each claimed revenues through creative accounting techniques. In Sunday's announcement of a \$1 billion plus restatement, Qwest placed the blame on its accounting firm. What was left unsaid, however, is the reason that we're all here today, that Qwest and these other companies knowingly entered into many deals which they knew had no real business purpose except to recognize revenue.

This committee has reviewed dozens of e-mails in which sales staff openly admitted that these deals were for revenue recognition. As early as June 2000, Robin Wright of Global Crossing wrote to David Walsh, Global president, that her "biggest concern about Qwest is buying something we don't really need to trade for the revenue." This desperate attempt to meet the numbers probably reached its lowest point when some of the Qwest sales staff made undisclosed oral and written representation to several companies' sales staffs that would have allowed the portability of the assets that were allegedly sold.

Neither the accountants nor the internal orders were told of these agreements. One such agreement was essential to sealing a

\$109 million year end deal which sent from the computer of Qwest president, although he claims no knowledge of the message and everyone else denies sending it. Although the existence of this e-mail has been known for almost a year, the company inexplicably has not yet finished its investigation of who sent it, how it was sent or even taken affidavits from the involved employees. These side agreements, had they been known to Qwest accountants would have completely changed the accounting and reduced Qwest's revenue by hundreds of millions of dollars.

At Global Crossing, employees tried to carry out two opposing directives. The network engineers had been ordered to reduce the amount of capital expenditures while the sales people were spending it on whatever deals that they could, just to book revenue. The culmination of the unraveling of the situation is when Global did not know whether or not Qwest was trying to sell something that it already had bought.

Mr. Chairman, the people who will testify today did not set out to disrupt the lives of fellow employees, retirees and shareholders. However, most made no attempt to step these unethical and possibly fraudulent deals.

As we learned from Enron, Global Crossing and Delphi, Qwest and others, corporate abuses demand real solution. It is my hope that these hearings will provide the insight needed to restore the public's face in their investments. Thank you, Mr. Chairman.

Mr. GREENWOOD. The Chair thanks the gentleman from Florida and recognizes the chairman of the full committee, Mr. Tauzin for an opening statement.

Chairman TAUZIN. Thank you, Mr. Chairman, and let me extend my warm appreciation again to you, Mr. Deutsch, and to Ranking Member Dingell for the extraordinary cooperation and assistance in the continuing bipartisan committee investigations into corporate responsibility failures. We could not do our work without that spirit of bipartisanship and the agreement not to politicize these hearings. And again, I want to extend to you publicly our compliments, our thanks because Chairman Greenwood and I are deeply appreciative that we've been able to make such progress because of that. Thank you.

When we set out to get to the bottom of Enron's financial collapse back in November last year, we said we'd pursue the facts wherever they might lead. And we did so with the kind of stubborn determination that eventually showed the public how the deceptive and greedy actions of a few executives could bring whole companies down to their knees, destroy employee futures, families and bring financial devastation to honest and hard working employees and most notably to the whole structure by which investors invest in public companies.

I'm sad to say this threat of greed and deceit in the executive suite and the board room seems to have run through other once high flying companies as well. The hearing beginning this morning will shine a light on the activities of two well-known telcom firms, Global Crossing and Qwest. And I'm disappointed to say the evidence amassed by the committee and our joint investigative team raises once again some very troublesome questions about the behavior of certain individuals entrusted with making the right deci-

sions for a company, its employees and for its real owners, the investing community of America, the pension funds and the individual investors who believe these companies are on the up and up.

What we have before us today are transactions involving the exchange of long-term leases, so-called swaps of fiber optic capacity, otherwise known as IRUs, indefeasible rights of use that appear to derive from quite the same deceptive impulses that drove a handful of Enron executives to destroy that company.

Enron executives' central deception was to engage in transactions that were designed to push the debt of that company off the books, to hide it from the Wall Street investment community, the rest of us who were investing in Enron and indeed to give a false picture of the company's financial position, all in an effort to prop up its stock price.

Well, today we'll hear a similar set of efforts to deceive Wall Street and the American investing community. In this case we have evidence that Global Crossing and Qwest executives received sham transactions to put revenue on the books, to mislead investors and to prevent further drops in their stock prices. Interestingly, just last week, Mr. Chairman, Qwest announced a \$1.4 billion rewrite of its income indicating the dimensions of this fraud.

I think it's important to put it in layman's terms, what we discovered here. There is a legitimate thing called an IRU, a swap of capacity and there's a legitimate accounting treatment of it. If it's real capacity, if it's really swapped, and it really occurs and it's specific capacity that's being swapped, accountants are allowed to treat that as a capital lease, in effect, almost a sale, an account for income, either immediately over the term of the capital lease.

But if there's portability in the deal, if the capacity is not really specified, if you can move it around, if it can be other places and other times, if there's portability, there's flexibility in that deal, generally speaking, that's not a real capital lease. That's an operating lease. And what we discovered with documents indicating side agreements, side agreements that redefined the nature of these swaps conducted between Qwest and Global Crossing and some other companies, notably FLAG Communications, Cable and Wireless, as well as Global Crossing, side agreements which if known to the accountants would have led them to believe that there was misaccounting going on, that these agreements were not really capital leases and should not have produced income on the company's books.

Even worse, Mr. Chairman, we discovered documents indicating oral agreements. Now Qwest will deny it, but we have documents from FLAG and from Cable and Wireless and Global Communications indicating oral agreements, the winks and the nods, that these swaps were not really the kind of swaps that could be treated as capital leases; the winks and the nods, side agreements, either written or oral, that indicated these companies were engaged in deception and fraud to try to make it look like the company was making money when it really wasn't, to put income on the books that didn't exist and to tell investors a false story about the progress of these companies.

We'll also hear a la Enron of employees who tried to warn the higher ups that certain deals were inappropriate, who worried



about wearing orange and black and white stripes, who worried about the fact that these deals wouldn't stand the light of day, that if the light ever shown on them, folks would know that they were fraudulent and deceptive, and yet those warnings were ignored.

Witnesses before us were well aware of the transactions under scrutiny today and I'm sure we'll have some dispute about what were legitimate business transactions and what were basically deceptive ones, but what is undoubtedly clear is that we have a case where people within the company thought they were deceptive, tried to warn someone about it, and were brushed aside.

Mr. Chairman, our duty is to pursue the facts and the evidence and I believe it's essential that our committee examine evidence of deceptive practices and behavior which is so poisonous to the public trust and the integrity of the financial markets.

Mr. Chairman, you've been dogged in your pursuit of corporate responsibility and accountability in these cases and I believe that dogged pursuit is eventually going to help us restore trust and integrity because companies watching these hearings, executives and board members watching these hearings, watching the light of day shown on these practices, are going to know that they can't do it any more. They've got to be honest with investors and they've got to think a little bit more about the companies and the employees they destroy when they play games like we discovered were being played at these two enormously important corporations.

Thank you, Mr. Chairman. I yield back.

Mr. GREENWOOD. The Chair thanks the chairman of the full committee and recognizes the gentlelady from Colorado for an opening statement for 5 minutes.

Ms. DEGETTE. Thank you, Mr. Chairman. I'd like to thank the chairman for having this hearing today. Qwest is headquartered in my District, Denver, and it employs 15,000 people in Colorado, so you can imagine my constituents' interest in this matter.

When I was reviewing the e-mails that form a basis for a lot of this hearing, I couldn't help but think about my grandmother and how when I was a little girl in Denver, I used to go over to her house and in her basement she had one of those old black telephones from the 1940's with the really heavy handset and you'd pick that telephone up and you'd dial a phone number and the person at the other end would answer. And what I was thinking about was, isn't that what the phone company is supposed to do? And then I was reading these e-mails and I was thinking to myself how the industry has changed since then, since I was a little girl and how telecommunications, in general, has changed. But frankly, how telecommunications' essential mission has not changed since that time. And the essential mission is really to still help people communicate.

Now as most of my colleagues know, U.S. West, which is the predecessor to Qwest, was created with the break up of Ma Bell as one of the baby Bells serving the Rocky Mountain region. U.S. West was a solid, profitable and traditional company with strong ties in the community. The stock wasn't the most cutting edge, but frankly when you picked up the phone to call somebody you could get a hold of them and that was exactly the kind of company you'd want your grandmother to invest in.

In June 2000, in the waning days of the go-go internet boom, a group of cowboys by the name of Qwest came riding into town and they acquired U.S. West. These cowboys promised big changes, higher profits, more efficiency, new innovation. They plastered the Qwest name in huge blue letters visible day and night across two of the biggest skyscrapers in Denver, to show their vision. Instead of a traditional telephone company, they would turn the new Qwest into a model of the new economy. This led, as you might imagine, to a bumpier corporate transition than most. The top management changed almost completely. Service problems abounded. There were painful layoffs and almost a complete halt of corporate charitable giving. This corporate culture led to dramatic changes in how Qwest did business.

In the years since Qwest's new management took over, their bad business decisions have had a significant impact on our local economy, the local work force and the community. And now it appears the problems are much worse than simply poor business decisions. That's why we're here today.

What we know is that Qwest engaged in swaps with companies like Global Crossing and Enron where each company traded capacity with the others. The mere fact that these trades occurred is not a problem, but what is a problem is the recording of profits from these swaps and the oral side agreements that were part of the swaps. As you've heard from our Chairman and others, Qwest booked revenues in the same year that it received capacity from Global Crossing, yet it recorded the expenses over a number of years. This, of course, had the effect of artificially inflating Qwest profits.

In reviewing the e-mails that document transactions one thing becomes clear, the Qwest management was not spending its time trying to fix all of the problems associated with the bumpy take-over. Instead, they were trying to figure out how to maximize their book value.

Now I think that we need to get to the bottom of this. I think we also need to look at the role of the Qwest board which has been an important issue, with Enron, ImClone and other investigations. And here's why this is so essential, even though we have all of these problems Qwest is still my local telephone company and remains an important part of the community. I am heartened to report, Mr. Chairman, that Qwest has new leadership and I believe that the new leadership in making the \$1.4 billion adjustment, in reaching out to the community and the employees and the retirees is trying to do the right thing. And I hope when you bring the former management in, you will also bring the new management in to talk about what they're doing. But in the meantime, Qwest has more than 50,000 retirees and employees across the United States. I want to be confident in this company. I want to be confident in the entire telecommunications industry and I think that the investors on Wall Street want to have that same feeling.

I look forward to hearing the testimony today, Mr. Chairman, and I yield back the balance of my time.

Mr. GREENWOOD. The Chair thanks the gentlelady and recognizes the gentleman from Kentucky, Mr. Whitfield for 5 minutes for an opening statement.

Mr. WHITFIELD. Thank you, Mr. Chairman, and members of the committee, it is imperative that the hearings be held and our continuing effort to bring to light the serious problem of deception in parts of corporate America.

Today, we're once again confronted with two companies whose business practices are being called into question. I hope we do not hear corporate executives pleading ignorance to facts that indicate the contrary. Workers raising concerns, but those concerns being ignored, all with the same result, bankruptcy, thousands of jobs lost and pensions and retirement funds lost.

Since our committee first started investigating the issues of corporate accounting abuse, the American people have been shocked at the deception and lack of concern by senior management for employees, for stock holders, for customers, for the general public. Employees who went to work every day, put in long hours, committed to the company, providing a living for their families, hoping to save for the future, buying stock on the company, those people did their part, but unfortunately senior executives did not do their part. These greedy individuals looking out only for themselves and the quick buck have shattered the dreams of thousands and have caused alarm throughout the country.

While the Congress, the Justice Department and SEC and maybe other governmental agencies will examine the culpability of those individuals, I believe we must recognize, as my friend from Colorado said, that companies are much more than senior executives. As we hear testimony from the witnesses today, our goal should be to get the information we need to help ensure that these abuses do not happen again. What has happened, has happened. We must look to the future and if there is a way to save the company, the jobs, the pension funds, the hopes, we must pursue it.

Qwest alone has over 50,000 employees and nearly as many retirees. Nobody, of course, benefits from the demise of any company, so I look forward to hearing from the witnesses today and the questions from my colleagues and I hope that we are able to bring measures to light that must be brought.

Thank you, Mr. Chairman.

Mr. GREENWOOD. The Chair thanks the gentleman and recognizes the gentleman from Michigan, Mr. Stupak for 5 minutes for an opening statement.

Mr. STUPAK. Thank you, Mr. Chairman. Lately we've been busy with the debate to create another government agency, the Department of Homeland Security. My concerns regarding that agency have long been whether there will be someone accountable, someone in charge, someone who will accept responsibility for the decisions made or to be made. I find myself here today asking similar questions. Why is there no one accountable? Very few individuals, if any, have stepped forward to stop this corporate wrongdoing. How are these companies getting away with this? How many hearings will we have to find out why American investors and employees are left empty handed while corporate executives leave their bankrupt companies richer than when they came in?

What I've heard from Enron and now today Qwest has left me stunned. We find corporate America knowingly making

misstatements and intentionally padding the revenues of their companies with blatant disregard for the truth and for facts.

I have before me this binder of documents, as we all do. These documents, has paper upon paper, of select company employees who knew they were misleading the public. E-mails that put revenues first and actual business need second. There's an e-mail right here that's marked "confidential" on the top. It says here, "Susan told me Greg is ready to write a check for \$75 million this quarter for capacity on SAC." It goes on to say "what the hell are we going to buy?" I guess I'd ask what the hell is Congress going to do about this total corporate mess.

I believe and I've long advocated that we must repeal the 1995 Private Securities Litigation Reform Act. I've introduced legislation to do just that, to return the legal rights back to the American investor by repealing the ill-conceived Private Securities Litigation Reform Act of 1995. The Private Securities Litigation Reform Act of 1995 has fostered this total disregard for ethics, legal and moral responsibility in corporate and financial America.

I have introduced a bill that will repeal the Private Securities Litigation Reform Act of 1995 and empower shareholders to seek legal redress when they have discovered wrongdoing, rather than being prohibited as they are now under current law.

It is no coincidence that the restatement of earnings that you will hear about today go back to the passage of the 1995 act. My bill would also allow shareholders to use the full extent of the court system to go after corporate wrong doers. It would restore legal liability for those corporate executives, auditors, attorneys and others who have abused the public trust and corporate trust.

We must empower the investors to be on the front lines as a practical and as a proactive check on the rampant misdeeds that have been going on in some corporations.

These hearings are needed to end an era where corporate executives have been operating in the cover of darkness at the expense of corporate responsibility and good faith and innocent shareholders and employees are being hurt.

I'd like to thank our staffs, both Democrat and Republican staffs for the fine work they've done over the summer. In this case, they've been working on the Qwest documents since March 2002 and helping us and this country understand the lack of corporate accountability and responsibility to the American people, shareholders and their employees.

With that, Mr. Chairman, I yield back.

Mr. GREENWOOD. The Chair thanks the gentleman and recognizes the gentleman from Maine, Mr. Bass—New Hampshire.

Mr. BASS. When did I come from Maine?

Mr. GREENWOOD. New Hampshire.

Mr. BASS. I appreciate the gentleman from Ohio recognizing me. Thank you, Mr. Chairman, for holding this hearing and building on this subcommittee's impressive record of oversight response to crisis in corporate governance accounting practices.

Mr. Chairman, I look forward to today's testimony and I remain frankly amazed at the level of duplicity and greed that a small amount of people thought they could get away with. It reminds in some respects to the events of last week when a robber was able

to be conned into entering the Capitol Police's Central Headquarters in the Longworth Building to reach an ATM. How he ever thought he'd get away with that is similar to what we seem to be uncovering today.

But I also am concerned about the fate of what's left behind in the wake of all these scandals and earnings restatements, layoffs, plummeting equity prices and so on. It's important to remember that there are, especially in the case of Qwest, real companies and real employees, real retirees, and customers who need services, underlying services that are now controlled or managed by these companies and we can and should vigorously pursue the people involved and they should spend real time in real prisons as we have legislated with our Corporate Accountability Bill, the Sarbanes-Oxley Bill, but we shouldn't through these hearings or anything else, cause more harm to those innocent people who have been so affected. These companies need to convince their customers, their investors, their workers and government regulators that they've cleaned up the mess and have worked to get past the problem in a sustainable and equitable manner and I assume we'll hear from these witnesses about such progress.

The case before us today warns of this danger more than any of the others that have come before us. In Qwest, not just another dot com or technology enterprise, but Qwest is, as we know, the local telephone company for the whole western part of the United States and a failure of bankruptcy of this company would have substantially more impact on consumers and we ought to keep that in mind as we move forward.

The problems, I suspect that relate to corporate malfeasance are over. This hearing and the others that we've held before us, as the chairman mentioned in his opening statement, send—serve to send a clear message to current corporate executives, that Congress and the Justice Department and the American public will not tolerate this kind of behavior in the future.

It is our responsibility to get to the bottom of this issue, but do so in such a manner so that we do not jeopardize real value that exists today and I yield back to the chairman.

Mr. GREENWOOD. The Chair thanks the gentleman and recognizes the gentleman from Ohio, Mr. Strickland, for 5 minutes for his opening statement.

Mr. STRICKLAND. Thank you, Mr. Chairman. Mr. Chairman, the reputation of corporate America has been tarnished over the course of the past year. We've learned the hard way that America's accounting standards are insufficient and that American business ethics fall short of the general public's expectations. We must not write off the collapse of Enron and the unfolding financial turmoil of the telecom sector as the growing pains of new industries. Accounting standards must stay ahead of the curve in anticipation of the newest developments in energy trading and the technological advances of communications.

Yesterday, we learned that Qwest Communications plans to restate its financial statements from 2000 and 2001 in order to cancel \$950 million in sales of capacity swaps. We will hear today how those capacity swaps were used in vain to revive a dying company.

In 1999, Qwest's stock doubled in value from \$20 per share to \$40 per share and in 2000, Qwest shareholders experienced a heady ride as the stock bounced around between \$40 and \$60. It was during 2000, that investors were fooled into believing that Qwest's high stock price was founded on solid business practices and good management. Employees bought stock. Pension funds bought stock. Americans all over the country prepared for retirement by buying Qwest stock for their 401(k) plans and it was all a sham. It seems that Qwest engaged in these capacity swaps so they could meet publicly announced revenue targets and so that its stock price would remain in the clouds with the dreams of the company executives.

Yesterday, Qwest stock closed at \$2.79 and the company is under investigation, not only by this panel, but by the SEC and the DOJ as well. Now many of us are wondering what we can do to stem the tide of all this corporate wrong doing. We created a new body to set accounting standards in an attempt to change business practices inside the companies. We required the executives to certify quarterly and annual statements so that investors can believe that what they are reading is true, but we didn't create a penalty for the companies whose principal executives failed to certify reports.

Later this week I will introduce legislation to do just that. My bill will prohibit the Federal Government from contracting with a company whose CEO fails to certify periodic reports as required by Section 302 of the Sarbanes-Oxley At. It would also require the SEC to make public a list of those companies who have failed to comply with Section 302.

I invite all of my colleagues here today to join in co-sponsoring language that will give executives a reason to think twice before they falsely certify their 10-Qs or 10-Ks. Qwest is one of a handful of companies whose CEOs and CFOs have been unable to verify their companies' SEC filings from the past year and it has yet to file a quarterly report for the second quarter. Failure to certify periodic reports should make investors and customers alike a little wary and I think the Federal Government itself should be a little wary of contracting with companies who can't abide by the law.

Today, we will try to get to the bottom of some of these shady deals transacted over the past years which make Qwest current executives so uncertain of past financial statements.

Mr. Chairman, there is a malignancy growing within corporate America and it is killing the hopes and dreams of America's families. I hope we take the strongest possible action in this committee and in this Congress. And Mr. Chairman, I yield back the balance of my time.

Mr. GREENWOOD. The Chair thanks the gentleman and recognizes the gentleman from Florida, Mr. Stearns, for his opening statement.

Mr. STEARNS. Thank you, Mr. Chairman, and of course, like my colleagues, I compliment you for having this hearing. It's unfortunate that we have to have this hearing. The telecommunications sector, of course, has been the hardest hit in this downturn in the economy and it's affected, obviously, hundreds of thousands of people and they're wondering about their jobs, could their jobs have been saved if management had been prudent? Had there been bet-

ter accounting practices, disclosure requirements and corporate mismanagement been curtailed, and if the board of directors of these companies had been responsible, could they have stopped it? These are a lot of the questions we need to answer.

Mr. Chairman, there's a fundamental thought that's going through a lot of people, both here in Washington and outside. There's been a huge transfer of wealth from investors, men and women, the small investors to a clique of management in this country and it has happened seamlessly and this is wrong. If capitalism is supposed to work, it's going to work, and if free enterprise is a key aspect about it, we can't have this transfer to 10,000 individuals or a small group of people. There has to be in place the requirements, whether it's accounting practice, disclosure, transparency, preventing corporate mismanagement or making the board of directors more responsible because in the end this huge transfer affects every man and woman who is looking for retirement and they went under the assumption that when their broker, their institutional mutual fund made their decision that there was transparency.

For the 9,000 people who lost their jobs as a result of the Global Crossing bankruptcy, most of which they were unaware of these improprieties and they've cost them their jobs. The reach of Global Crossing debacle into telecommunications is deep by some estimates 500,000 jobs and \$2 trillion in market capitalization and a sector was lost as a direct result of this bankruptcy. This is an awesome, awesome thing.

So Mr. Chairman, I think it's very important that Congress give credibility to these hearings by trying to offer solutions after it's over. So I urge you and my colleagues that we work together, if there's more that can be done. So I look forward to the testimony and I thank you for the hearing.

Mr. GREENWOOD. The Chair thanks the gentleman and I believe that that concludes our opening statements and now I would like to introduce our first panel. They are Mr. Patrick Joggerst, who is the former President of Carrier Sales for Global Crossing; Mr. Roy Olofson, the former Vice President of Finance for Global Crossing; and Ms. Robin Szeliga, the Executive Vice President for Qwest Communications International. We thank each of you for coming. We appreciate your willingness to come and testify before us. I think you are aware that the committee is holding an investigative hearing and when we hold investigative hearings it is our practice to take testimony under oath.

Do any of you object to giving your testimony under oath this morning? Seeing no such objection I would advise you that pursuant to the rules of this committee and pursuant to the rules of the House, that you're entitled to be advised by counsel. Are you advised by counsel this morning, Mr. Joggerst? All right, would you identify your counsel by name, please? Is your microphone on, sir?

Mr. JOGGERST. Yes, my counsel is here. His name is Lorne Cohen.

Mr. GREENWOOD. Mr. Olofson, are you represented by counsel? You need to push your button on those microphones.

Mr. OLOFSON. I am represented by counsel, Mr. Paul Murphy.

Mr. GREENWOOD. Good morning, sir. Thank you for being with us. And Ms. Szeliga, are you represented by counsel? You have to push your button as well.

Ms. SZELIGA. Yes, I am.

Mr. GREENWOOD. You have two attorneys and they are?

Ms. SZELIGA. Pardon me, Terry Byrd and Vince Morella.

Mr. GREENWOOD. Welcome, gentlemen, we thank you for being with us this morning.

All right, in that case, if you would rise and raise your right hand, I will give you the oath.

[Witnesses sworn.]

You are under oath. You may be seated and I believe each of you has an opening statement that you'd like to make and we're going to go from right to left and we're going to begin with you, Mr. Joggerst. You are recognized for 5 minutes for your opening statement.

**TESTIMONY OF PATRICK JOGGERST, FORMER PRESIDENT OF CARRIER SALES, GLOBAL CROSSING, LTD.; ROY L. OLOFSON, FORMER VICE PRESIDENT OF FINANCE, GLOBAL CROSSING, LTD.; AND ROBIN SZELIGA, EXECUTIVE VICE PRESIDENT, QWEST COMMUNICATIONS INTERNATIONAL, INC.**

Mr. JOGGERST. Very good, Mr. Chairman. Good morning, Mr. Chairman and members of the subcommittee. My name is Patrick Joggerst. I joined Global Crossing in early 1998 following 18 years at AT&T. I was the twelfth person asked to join the company and was involved in marketing and selling wholesale products and services since its inception.

The founders and early employees of Global Crossing share a vision of a worldwide fiber optic network. My friends and colleagues, together with our suppliers and customers, gave that vision life.

In the early years, demand for global broadband connectivity was insatiable. Global Crossing's success attracted many competitors with their own financial backers eager to replicate Global Crossing's reach.

In the first three quarters of 2001, Global Crossing's stock price started plummeting and recurring revenues failed to grow as anticipated. These were the results of the now well-known glut of fiber optic capacity. However, at the time, I continued to believe in the company's future and even suspected that the market for global connectivity might rebound. In October 2001, I asked the company for additional stock options. Unfortunately, my optimism has proven to be incorrect.

I left Global Crossing at the end of 2001 to pursue new opportunities. I have been asked to cooperate with this committee and I'm pleased to do so.

Thank you.

[The prepared statement of Patrick Joggerst follows.]

**PREPARED STATEMENT OF PATRICK JOGGERST, FORMER PRESIDENT OF CARRIER SALES, GLOBAL CROSSING LTD.**

Good morning. My name is Patrick Joggerst. I joined Global Crossing in early 1998 following 18 years at AT&T. I was the 12th person asked to join the company and was involved in marketing and selling wholesale products and services since its inception.



The founders and early employees of Global Crossing shared a vision of a world-wide fiber optic network. My friends and colleagues, together with our suppliers and customers, gave that vision life.

In the early years, demand for global broadband connectivity was insatiable. Global Crossing's success attracted many competitors with their own financial backers eager to replicate Global Crossing's reach.

In the first three quarters of 2001, Global Crossing's stock price started plummeting and recurring revenues failed to grow as anticipated. These were the results of the now well-known glut of fiber optic capacity. However, at the time, I continued to believe in the company's future and even suspected that the market for global connectivity would rebound. In October 2001, I asked the company for stock options. Unfortunately my optimism has proven to be incorrect.

I left Global Crossing at the end of 2001 to pursue new opportunities.

I have been asked to cooperate with this committee and I am pleased to do so.

Mr. GREENWOOD. Thank you, Mr. Joggerst.

Mr. Olofson, do you have an opening statement?

#### STATEMENT OF ROY L. OLOFSON

Mr. OLOFSON. Good morning, Mr. Chairman, Ranking Member Deutsch and other members of the subcommittee and Chairman Tauzin. I come here today to assist the subcommittee in its investigation of Global Crossing, but I'm also here today for another very important reason. I come here to begin the process of clearing my name. It is very difficult to pick up the newspaper day after day and read how Global Crossing and its public relations machine has accused me of being a disgruntled employee. It is also very difficult to find out from friends at Global Crossing that after spending over 3 years with the company, its chairman of the board, Gary Winnick, had the audacity to stand up in front of the entire office and call me an extortionist. So I am here today not merely to help you in the discovery of the truth, I am also here to help me and my family get our lives back.

As the members of the committee may know, I joined Global Crossing as Vice President of Finance in 1998. And I was Global's fortieth employee. When I joined Global, I brought with me over 28 years of senior financial management experience. As Vice President of Finance, I was responsible for the company's accounting and financial reporting functions, including preparation of budgets, consolidated financial statements and filings with the SEC. I reported directly to the Chief Financial Officer and I built a staff of some 15 to 20 people.

This was an incredibly exciting time for the company and we all felt very positive about its long-term potential. At the time, our primary product was the sale of capacity known as IRUs and we worked closely with both the SEC and the FASB to properly understand and account for these transactions.

We also had substantial assistance from Arthur Andersen and in particular its partner, Joseph Perrone, whom you worked closely on many issues. In May 2000, Global Crossing hired Joe Perrone as Senior Vice President of Finance. My responsibilities were then in the process of changing so that I was now focusing on streamlining and integrating the operations of what now had become an extremely large company, particularly after the merger with Frontier Telecommunications in September 1999.

In January 2001, I was diagnosed with lung cancer. Shortly thereafter, I took a medical leave of absence to allow me time for

surgery and rehabilitation. While I was on leave, I learned that Global was having a difficult time meeting its first quarter revenue projections. I later learned that Global ultimately was able to meet its numbers, in part, due to some large last minute swap transactions.

I returned to work in early May 2001 and on June 1, during discussions with Joe Perrone about my on-going job responsibilities, I told Mr. Perrone I was concerned about the way the company had accounted for certain transactions in the first quarter and that on a conference call with investors and financial analysts, Global's CEO Tom Casey said, "there were no swaps in the quarter." Mr. Perrone minimized my concerns and said that the company was getting out of the IRU business.

During June and July I again began to hear concerns that the company was engaging in last minute swap transactions as a means to boost revenues. I received a copy of a document known as the sales funnel that indicated that approximately 13 of the 18 largest IRU transactions completed in the second quarter were last minute swaps, were identical or substantially identical amounts of cash were being exchanged along with the underlying capacity.

I found it hard to believe that if the substance of these transactions were swaps of capacity that the mere expedient of round tripping cash would allow the Your Honor to record revenue. By mid to late July, Mr. Perrone still had not given me any new job responsibilities and I believed that this was occurring because of my conversation with him back in June. On August 2, on the company's quarterly conference call with the financial analysts for the second quarter, I again heard Tom Casey state there had been no swaps in the quarter. I became deeply concerned because I felt that the statement was inaccurate.

Pursuant to the company's ethics policy, any concerns about the propriety of the company's financial reporting was to be directed to the Chief Ethics Officer, James Gorton. I therefore sent a letter to Mr. Gorton on August 6 which outlined my concerns. Shortly after I sent this letter to Mr. Gorton, I received a letter from him assuring me that the matter would be fully investigated and that as a member of management, I should keep this matter confidential. We now know that while the company issued a press release in January 2002 stating that my concerns had been fully investigated and found to be without merit, they had never given a copy of my letter to Arthur Andersen and had never interviewed me.

This investigation was so inadequate that the company has since opened a second investigation which is yet to be completed.

I want to end by stressing two points. First, when I wrote my letter, I did not know all the facts surrounding these transactions, therefore my letter was not designed or meant to conclude that I knew that these transactions were shams. Instead, it was designed to say that they didn't pass the smell test and therefore should be investigated. However, the facts that have been made public since that time only seemed to further undermine the legitimacy of these transactions. In particular, I have reviewed reports that are in this committee's possession from Global's engineers that show that most of the IRUs Global received through these swap transactions are now considered absolutely worthless.

Apparently, this study was completed in mid-2001 and therefore it appears that Global management must have been aware of the issue prior to my letter of August 6.

I have also reviewed the recent pronouncement of the SEC which in my opinion fully supports the concept that if all a transaction represents is an exchange of capacity, the transaction should be treated as such and not be counted as revenue.

As Mr. Timothy Lucas, head of the FASB Emerging Issues Task Force said, "an exchange of similar network capacity is the equivalent of trading a blue truck for a red truck. It shouldn't boost the company's revenue."

Second, I have been characterized in the press as a whistle blower and I have even heard my counsel use that term when referring to me. I do not see myself that way. I first aired my concerns in June 2001. On August 6 I complied with the company's ethics policy and wrote my letter to Mr. Gorton. I did so because I was concerned that the public was being misled. I concluded that regardless of the ramifications, as an officer of the company, I had an obligation to express my concerns about what I thought was potentially over aggressive accounting. At the time, I believed the company would investigate my concerns in good faith. I was wrong. Instead, they fired me.

I can honestly say that I never imagined in my wildest dreams that my letter would contribute toward putting in motion a series of events that has led to my appearance before this committee today. That all being said, I welcome the committee's investigation and I will do everything in our power to assist the committee in its search for the truth, no matter what that might be.

I now invite your questions and I hope that I prove to be of service to you.

[The prepared statement of Roy L. Olofson follows.]

PREPARED STATEMENT OF ROY L. OLOFSON, FORMER VICE PRESIDENT OF FINANCE,  
GLOBAL CROSSING LTD.

Good morning Mr. Chairman, Ranking Member Deutsch and the other members of the Subcommittee on Oversight and Investigations. I come here today to assist the Subcommittee in its investigation of Global Crossing. But, I also come here today for another very important reason. I come here to begin the process of clearing my name. It is very difficult for me and my family to pick up the newspaper day after day and read how Global Crossing and its P.R. machine have accused me of being a disgruntled employee. It is also very difficult to live a normal life when television crews lurk at our front door. And it is very difficult to find out from friends at Global Crossing that after spending over three years with the company, its Chairman of the Board, Gary Winnick, has the audacity to stand up in front of the entire office and call me an extortionist. So I am here today not merely to help you in the discovery of the truth, I am also here to help me and my family get our lives back.

As the members of the Committee may know, I began my career working as a CPA for Price Waterhouse. I then became the Vice President of Finance for Carter Hawley Hale Stores, where I was responsible for accounting, internal auditing, all financial reporting and various treasury activities including supervising all public and private debt and equity offerings. After twelve years at Carter Hawley Hale, I left to become Chief Financial Officer of Fedco, Inc. which was a large membership-owned mass-merchandise retail company. By the time I departed Fedco fourteen years later, I had risen to the title of interim Chief Executive Officer. In 1998, after a brief stint as CFO of PIA Merchandise Services, Inc.—a company for which I was responsible for all financial reporting to investors and the SEC—I was hired as the 40th employee of Global Crossing.

When I was first hired at Global, I was responsible for the company's accounting and financial reporting functions, including preparation of budgets, consolidated fi-

nancial statements and filings with the SEC. I reported directly to the CFO and I built a staff of 15-20 people. This was an incredibly exciting time for the company and we all felt very positive about its long term potential. At the time our primary product was the sale of capacity known as IRUs and we worked closely with both the SEC and the FASB to properly understand and account for these transactions. We also had substantial assistance from Arthur Andersen and, in particular, its partner, Joseph Perrone, with whom I worked closely on many issues.

In May 2000, Global Crossing hired Joe Perrone as its Senior Vice President of Finance. Immediately, he took over the accounting and financial reporting functions. Most of the people who previously reported to me began to report directly to him. My responsibilities changed so that I was now focusing on streamlining and integrating the operations of what now had become an extremely large company, particularly after the merger with Frontier Telecommunications in September of 1999.

In January 2001, I was diagnosed with lung cancer. Shortly thereafter, I took a medical leave of absence to allow me time for surgery and rehabilitation. While I was on leave, I learned that Global was having a very difficult time meeting its first quarter revenue projections. I also learned that Global ultimately was able to meet its numbers in part due to some large, last-minute transactions where Global swapped IRU capacity with other carriers.

I returned to work in early May 2001 and began the process of getting up to speed on what had happened at the company during my absence. One of the things I did was to listen to Global's quarterly conference call with financial analysts and the public regarding its financial results for the first quarter ended March 31, 2001. During the call, one of the analysts asked management whether there had been any capacity swaps in the quarter. I was very surprised to hear Global's CEO, Tom Casey, unequivocally state that "there were no swaps in the quarter."

Both before and after this conference call, I spoke with some of the financial analysts in the company. I began to learn that there was a general sense of uneasiness about these swap transactions and in particular about a transaction with 360 Networks. Through discussions with various people, I learned that 360 Networks and Global Crossing had entered into a last-minute transaction wherein Global booked \$150 million in Cash Revenues even though it had not received a penny in cash. While the transaction originally called for Global Crossing to pay \$200 million to 360 Networks and then for 360 Networks to pay Global Crossing \$150 million, I was told only the net amount of \$50 million changed hands. It was rumored that the gross amount of cash did not actually change hands because Global Crossing was concerned that 360 Networks was about to file bankruptcy and that, if it sent the additional \$150 million, 360 Networks might declare bankruptcy in the interim and would therefore not be able to return the \$150 million to Global Crossing.

At about this same time, I was speaking with Dan Cohrs about my responsibilities within the company. He told me that the company needed someone to manage its working capital and that might be an appropriate role for me. He asked me to speak with Joe Perrone who was scheduled to be in town May 31 and June 1. I met with Joe on both days. During those meetings, Joe suggested several new responsibilities that I might assume for the company. As these responsibilities would require me to spend significant time at Global's offices in New Jersey, we discussed travel and housing allowances and related issues. At the end of our meeting on the second day, we were at a restaurant after which Mr. Perrone was scheduled to go to the airport to catch a plane back to New Jersey, which was where he was based. Near the end of our meeting, the subject of the conversation changed to the financial condition of the company. I took the opportunity to express my concerns about Tom Casey's statement in the quarterly conference call that there had been "no swaps" in the first quarter, when in fact there appeared to have been a significant number and a substantial dollar amount of swap transactions. I also told him there were a number of people in the office concerned about the accounting for those swap transactions, particularly the inclusion of \$150 million cash relating to the 360 Networks transaction in cash revenue and adjusted EBITDA when no cash was received.

Mr. Perrone attempted to brush off my concerns. He stated that he had added some language to Global Crossing's press release regarding purchase commitments and that he interpreted the question from the analyst to which

Mr. Casey responded as referring only to transactions called "Global Network Offers" and not to capacity swaps. He also said the company was getting out of the IRU business. I told Mr. Perrone that I disagreed with this interpretation and I also told him that the additional language was vague and that analysts and investors would not understand the ramifications of the brief mention of purchase commitments.

It was clear that Mr. Perrone did not appreciate my comments and didn't want to talk about it anymore. He was visibly upset. He said he had to leave to catch his plane. He then turned to me and said that the Executive Committee was meeting on June 4th and 5th to discuss layoffs of 50 management personnel and that I should call him on June 6th to learn the results of the meeting. He said he would have to justify my position. He then picked up his bag and walked to the waiting limousine without saying another word.

I was absolutely shocked. Prior to discussing my concerns, our conversations regarding my responsibilities within the company were very positive and constructive. When I went on my medical leave, I received an email from Tom Casey encouraging me to "hurry back" because I was "a valuable member of the team" and that they needed my assistance. It had been rumored that the company was considering layoffs but I had no idea that it would include me. In addition, Mr. Perrone's comments made absolutely no sense to me in light of the fact that we had just spent two days delineating my future job responsibilities.

On June 6, 2001, I called Mr. Perrone as he had instructed but I was told that he was "unavailable." By June 21, 2001, I still had not heard from Mr. Perrone, so I spoke to Dan Cohrs about it. Mr. Cohrs told me that Mr. Perrone had been busy but that he would have Mr. Perrone call me. It just so happened that when I walked into Mr. Cohrs' office, he was working on a press release. Given that I knew the first quarter had been difficult, I asked whether the press release was to reduce guidance for the rest of the year. Dan Cohrs stated, "I would like to, but the Chairman had just sold 10 million shares of stock." Mr. Cohrs added that Global's management had advised the Board of Directors earlier that month that Global Crossing was considering lowering its guidance forecasts for the year but they were still reviewing the numbers. He also volunteered that the company had recently decided to indirectly guarantee or "back-stop" margin loans to certain officers, and that he hoped the price of Global's stock would increase because this would have to be disclosed in Global's next proxy statement.

During June and July, I again began to hear concerns that the company was engaging in last minute "swap" transactions as a means to boost revenues. At one point, I received a copy of a document known as a "sales funnel" that indicated that approximately 13 of the 18 largest IRU transactions completed in the second quarter were last-minute swaps where identical or substantially identical amounts of money were being exchanged along with the underlying capacity. There was one set of columns labeled "CASH IN" and one labeled "CASH OUT." Assuming the swaps of capacity had some business justification, I did not understand why they weren't simply accounted for as like-kind exchanges of assets. If the substance of the transactions were swaps of capacity, I found it hard to believe that the mere expedient of roundtripping cash would allow the parties to record revenue.

By mid to late July, I still had not heard from Mr. Perrone and no one at the company was communicating with me on any meaningful basis; and I was given virtually no responsibilities. I believed that this was occurring because of my conversation with Mr. Perrone back in June. On August 2, 2001, I listened in to the company's conference call with financial analysts and the public regarding the financial results for the second quarter ended June 30, 2001. Again, I heard Tom Casey state that there had been no swaps in that quarter. I became deeply concerned because I felt that the statement was inaccurate. Pursuant to the company's ethics policy, any concerns about the propriety of the company's financial reporting was to be directed to the company's Chief Ethics Officer, James Gorton. I therefore sent a letter to Mr. Gorton on August 6th, which outlined my concerns.

Shortly after I sent this letter to Mr. Gorton, I received a letter from him assuring me that the matter would be fully investigated and that, as a member of management, I should keep this matter confidential. We now know that while the company issued a press release in January 2002 stating that my concerns had been fully investigated and found to be without merit, at that point in time they had never given a copy of my letter to Arthur Andersen and had never interviewed me. This investigation was so inadequate that the company has since opened a second investigation which has yet to be completed.

I want to end by stressing two points. First, when I wrote my letter, I did not know all the facts surrounding these transactions. While I knew what Global was selling, I had no idea what Global was buying. That is important because it could dictate how the transactions should be accounted for. Therefore, my letter was not designed or meant to conclude that I knew that these transactions were shams; instead, it was designed to say that they didn't pass the smell test and should therefore be investigated. However, the facts that have been made public since that time only seem to further undermine the legitimacy of these transactions. In particular, I have reviewed reports that are in this Committee's possession from Global's engi-

neers that show that most of the IRUs Global received through these swap transactions are now considered absolutely worthless. Apparently, this study was completed in mid-2001 and therefore it appears that Global management must have been aware of the issue prior to my letter of August 6th. I have also reviewed the recent pronouncement of the SEC which in my opinion fully supports the concept that if all a transaction represents is an exchange of capacity, the transaction should be treated as such and not be counted as revenue. As Mr. Timothy Lucas, head of the FASB Emerging Issues Task Force said, "An exchange of similar network capacity is the equivalent of trading a blue truck for a red truck, it shouldn't boost a company's revenue."

Second, I have been characterized in the press as a "whistleblower" and I have even heard my counsel use that term when referring to me. I do not see myself that way. Rather, I see myself as simply an officer of the corporation who was merely attempting to do his job. I first aired my concerns with Joe Perrone in June 2001. On August 6, I complied with the company's ethics policy and wrote my letter to Mr. Gorton. I did so because I was concerned that the public was being misled. I concluded that, regardless of the ramifications, as an officer of the company, I had an obligation to express my concerns about what I thought was potentially over-aggressive accounting. At the time, I believed the company would investigate my concerns in good faith. I was wrong. Instead, they fired me. I can honestly say that I never imagined in my wildest dreams that my letter would contribute toward putting in motion a series of events that has led to my appearance before this Committee today. However, had I not written my letter, I suspect I might be sitting here trying to answer questions as to why I didn't express my concerns.

That all being said, I welcome the Committee's investigation, and I will do everything in my power to assist the Committee in its search for the truth—no matter what that may be. I now invite your questions and hope that I prove to be of service to you.

Mr. GREENWOOD. Thank you, Mr. Olofson. You have already proven to be of great service to us and to your country. And we thank you for your presence.

Ms. Szeliga, do you have an opening statement?

Ms. SZELIGA. Yes, I do.

Mr. GREENWOOD. You are recognized for 5 minutes. I would suggest that you bring the base of that microphone right in front of you and speak directly into it. There you go. Thank you.

#### STATEMENT OF ROBIN SZELIGA

Ms. SZELIGA. Thank you, Mr. Chairman and members of the subcommittee. My name is Robin Szeliga. I was the Chief Financial Officer at Qwest for approximately 15 months, from April 2001 until early July 2002. I am currently an Executive Vice President in charge of real estate and procurement for Qwest.

While I served as CFO, I reported to CEO Joseph Nacchio, and worked closely with the Audit Committee of the Board of Directors. I headed a CFO organization that was comprised of nearly 4000 people. Qwest was faced with many important challenges during my tenure as CFO. Among those challenges were the integration of U.S. West, a Regional Bell Operating Company with which Qwest had recently merged; the restructuring of the organization and the management team at Qwest following the merger; the re-entry by Qwest into the long-distance telephone market; and the task of improving telephone service in the 14-State region previously served by U.S. West.

As CFO, I was ultimately responsible for Financial Planning and Analysis, Financial Operations, Treasury, Internal Audit, Tax, Procurement, Corporate Strategy, Billing, Credit and Collections, and the Controllershship, including accounting systems support, technical accounting, financial reporting, payroll, and accounts payable. As-

sisting me in these responsibilities were various talented and very dedicated people, including the Controller and the Assistant Controller. They, in turn, had staffs which included accountants who were responsible for various technical accounting issues. I relied on, and at times worked with, this team of experienced accountants to analyze accounting requirements and apply them to specific transactions. The technical accounting group and I, in turn, relied on the accuracy of information provided to us by those who worked on various transactions for which we accounted. These included personnel in management and in the engineering and operations departments, various personnel in business unit and sales organizations, and finance personnel assigned to those business units.

Qwest's auditors, Arthur Andersen, advised us on our financial reporting and accounting. Arthur Andersen worked closely, and on an ongoing basis, with Qwest's Controller and technical accounting group. In addition, Arthur Anderson performed annual audits and quarterly preissuance reviews. Arthur Anderson also periodically presented its findings, views and opinions on accounting issues to the Audit Committee of the Board of Directors. When significant accounting issues arose, the technical accounting team reviewed those issues with Arthur Andersen's staff to obtain their advice and guidance. Then appropriate, those issues were also brought to the attention of Qwest's Audit Committee and Qwest's internal audit and legal departments.

During my tenure as CFO at Qwest, I took concrete steps to ensure that accounting principles were applied properly. For example, I added technical staff to the Controller's staff; I created a cross-functional team to review the complex sales transaction process; I initiated monthly meetings between the Controller and the Financial staff responsible for overseeing and directing Business Unit Finance; and I recommended a Finance Committee to the Board of Directors, which was ultimately established. I also improved the communication process between Qwest management and the Audit Committee.

One of the many types of transactions that Qwest engaged in was the sale IRUs or indefeasible rights of use of capacity on Qwest's fiber-optic network. As you know, Qwest began selling IRUs well before I became CFO. In fact, as early as 1999, Arthur Andersen established guidance as to the application of accounting principles for IRU transactions. The IRU accounting was primarily performed by the Controller and the technical accountants in conjunction with finance personnel assigned to the business units. This team was responsible for the application of Generally Accepted Accounting Principles or GAAP in the recording of IRUs. I was not personally involved in reviewing the detailed terms and conditions of each of the IRU transactions. However, as with other types of transactions, I instituted a number of controls around IRUs.

Mr. Chairman, I appreciate the opportunity to make this statement. As you know, I am appearing voluntarily today and I have cooperated fully with the subcommittee and its staff. However, please understand that I have not had access to, nor have I reviewed, all of the documentation that bears on the matters of this inquiry. Nevertheless, I will do my best to help the committee with

respect to its inquiry. And now I would be happy to respond to any questions that the subcommittee might have.

Thank you.

[The prepared statement of Robin Szeliga follows.]

PREPARED STATEMENT OF ROBIN SZELIGA, EXECUTIVE VICE PRESIDENT, QWEST

Good morning Mr. Chairman and members of the Subcommittee. My name is Robin Szeliga. I was the Chief Financial Officer at Qwest for approximately 15 months, from April 2001 until early July 2002. I am currently an Executive Vice President in charge of real estate and procurement at Qwest.

While I served as CFO, I reported to CEO Joseph Nacchio, and worked closely with the Audit Committee of the Board of Directors. I headed a CFO organization that was comprised of nearly 4,000 people. Qwest was faced with many important challenges during my tenure as CFO. Among those challenges were the integration of U.S. West, a Regional Bell Operating Company with which Qwest had recently merged; the restructuring of the organization and the management team at Qwest following the merger; the reentry by Qwest into the long-distance telephone market; and the task of improving telephone service in the 14-state region previously served by U.S. West.

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During my tenure as CFO at Qwest, I took concrete steps to ensure that accounting principles were applied properly. For example, I added technical expertise to the Controller's staff; I created a cross-functional team to review the complex sales transaction process; I initiated monthly meetings between the Controller and the Finance staff responsible for overseeing and directing Business Unit Finance; and I recommended a Finance Committee of the Board of Directors, which was ultimately established. I also improved the communication process between Qwest management and the Audit Committee.

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Mr. Chairman, I appreciate the opportunity to make this statement. As you know, I am appearing today voluntarily, and I have cooperated fully with this Subcommittee and its staff. However, please understand that I have not had access to, nor have I reviewed, all of the documentation that bears on the matters of this in-



quiry. Nevertheless, I will do my best to help the Subcommittee with respect to its inquiry. Now, I would be happy to respond to any questions that the Subcommittee might have.

Mr. GREENWOOD. Thank you very much and being mindful of the fact that you haven't seen all of the documents, if we ask you to respond to a document, we'll give you plenty of time to review it and consult with your counsel if you need to.

Okay, the Chair now recognizes himself for 10 minutes for inquiry and advises the members this will be a 10-minute round of questioning. And I'd like to start with you, Mr. Joggerst.

Is it your understanding that the revenue targets set for 2001 at Global Crossing were too high and aggressive, given the forecasted market?

Mr. JOGGERST. The sales process, generally, what we do is a bottoms up view in terms of what we thought was reasonable in the marketplace, the communications that we've had with our customers, their view of what their spending was and what their capital budgets were.

In looking at initially what was the target for 2001 was someplace around \$2 billion for an IRU perspective, \$3 billion for the carrier wholesale business overall, which would have been a record number by any stretch of the imagination. And yes, I had some concern that that would be an overly aggressive target to put to the sales force.

Mr. GREENWOOD. Okay, I'm going to ask you to turn to Tab 25 in the binder there and I'd like you to review a confidential set of e-mails from the date, dated August 30, 2000. And I'd like you to turn to page—to the bottom of page 2 and you'll see what's titled original message from Robin Wright. This was sent August 29 at 5:41 p.m. to Gary Brenninger and it was copied to you. Do you see that?

Mr. JOGGERST. Yes, I do.

Mr. GREENWOOD. And if you'll turn to the top of page 3 I'll read you some of the content. It says "As you know, prices are dropping fast and to some extent we are our own worst enemy. When saddled with an unreasonable revenue expectations we do the crazy deals at the end of the quarter. This, in turn, causes prices to drop which makes it more likely that we'll need to do another deal at the end of the next quarter." Can you give us your translation of what means and why would Ms. Wright refer to "crazy deals" done at the end of the quarters?

Mr. JOGGERST. Generally, what we'd do is manage the sales funnel very closely and we had conference calls on a weekly basis and toward the end of a quarter, it would really be done on a daily basis. And what we would look at are the opportunities that were already contracted for, where we knew money was going to be coming in. We had what we called primary targets which were pretty well understood and thought out and we had a pretty strong likelihood of being able to capture those revenues.

Then we also had secondary targets which were a little bit further out and of course, obviously, for the other quarters a much larger sales funnel was—

Mr. GREENWOOD. So those would be the noncrazy deals?

Mr. JOGGERST. Those, well, let me explain what would be crazy. If you looked at what we normally assumed we could collect the money that was due to us, we assume—you'd assume we could get the deals that were in the primary category and then a portion of the secondary sales final. What is happening more and more, particularly in 2001 is that there was a requirement, really that we needed to win 100 percent of our secondary deals or a large portion of them, much larger than we normally would in order to make the revenue targets that were put to us. So that, from my perspective, it was something that was really pushing the envelope. It was really too aggressive.

When Robin is talking about crazy deals at the end of the quarter, one thing that was clear during my—during that period of time at Global Crossing, it was not acceptable to miss your end of quarter number.

Mr. GREENWOOD. So by "crazy" she meant, I assume, that this was a deal that was being done not because the bottoms up review of the market was driving it, but rather it was being driven by the need to meet revenue expectations period. Is that fair?

Mr. JOGGERST. It's fair that they are accelerated to close in a very compressed timeframe. I've heard members of the subcommittee mention that they think some of the transactions were, in fact, sham, that there really was no value placed in what we were selling or what we were purchasing. That's not my belief.

I clearly believed that Global Crossing was still growing, that there was plenty of opportunity going forward and that we would have the capital and the ability to integrate those resources into the network going forward. What was happening is rather than having say weeks to negotiate capacity purchase with a customer, sometimes those transactions needed to be completed within 48 hours because we would literally watch the clock as it ticked down toward the end of the quarter.

Mr. GREENWOOD. Did you communicate your frustration about meeting the 2001 projected IRU targets to senior management at Global Crossing?

Mr. JOGGERST. I recall—I don't recall any particular e-mails, nor have I been shown any, but I do recall conversations with our CEO at the time, Tom Casey saying that really the bottoms up forecast doesn't come anywhere near \$2 billion and the result of that there was a mini task force put in place to try and come up with some very large, very aggressive outsourcing deals from some of our major customers to try and bridge what was really a very large gap.

Mr. GREENWOOD. Were any of the quarter IRU swaps entered into at the time they were closed done solely for the purpose of meeting the quarterly revenue numbers?

Mr. JOGGERST. There were at the end of first quarter, there was a transaction with 630 networks that was critical to make our quarterly numbers. The transaction could have waited. That one was a particular concern in that the financial stability of 360 at the time was very much in question. There were a number of conversations that I had directly with our Chief Executive Officer, Tom Casey, as well as others about that.

Similar kinds of transactions happened at the end of second quarter, particularly with FLAG and Cable and Wireless in that we needed to very dramatically accelerate some transactions that were going to close the quarter and again, the express purpose was to make sure that we made that quarter, end of quarter number. That's correct.

Mr. GREENWOOD. Is it the case that Global Crossing would not have met its quarterly numbers, its revenue expectations without those deals. Is that correct?

Mr. JOGGERST. Absolutely correct.

Mr. GREENWOOD. Can you describe the transaction with 360 because my understanding that it was clear that 360 was on the verge of bankruptcy, that there was a sale made to 360 that revenues were—from which the revenues were very realized. Is that correct?

Mr. JOGGERST. The transaction with 360 was unusual in that we had had on-going discussions. We had other transactions where we had sold to 360, where we had purchased from 360. At the end of first quarter, we did have a gap in our revenue and revenue that we needed to recognize for the end of the quarter and I was aware that Tom Casey, our CEO, was having conversations with Greg Mafey about a potential transaction where Global Crossing would sell to 360 networks capacity in the Pacific, across the Pacific to replace a project that they had since canceled and Global Crossing would purchase from 360 networks capacity across the Atlantic which Global Crossing had been forecasting a need for for some time. So that wheel was put in motion, but again, as I recall it was toward the middle of March, giving us a little less than 2 weeks to try and close this kind of a deal.

Mr. GREENWOOD. Isn't it the case that the capacity was never realized because the company went bankrupt?

Mr. JOGGERST. That's correct.

Mr. GREENWOOD. And Global Crossing booked \$150 million of revenue in that transaction?

Mr. JOGGERST. That's correct. We had a number of conversations. One that I can recall directly, at the kickoff meeting where 360 networks was present. Our Chief Counsel, Jim Gorton made a statement, stood up and said he was against the deal in the presence of 360 networks because of their financial instability.

Mr. GREENWOOD. Do you believe that that transaction was done fundamentally, given the fact that Mr. Gorton recommended against it, given the impending bankruptcy, given the fact in retrospect that he never got the capacity that that was done fundamentally to boost revenues in order to convince investors that the company was in better shape than it was. Is that a fair statement?

Mr. JOGGERST. It's a partially fair statement. The only caveat I would add is there was a true business need at the time for Global Crossing to have additional trans-Atlantic capacity. To get it from that company that had dire financial needs in a very accelerated timeframe, those factors were done just in order to reach the revenue targets. That's correct.

Mr. Olofson. Mr. Olofson, in your opening statement, you made reference to the fact that you believe 13 out of 18 transactions were questionable. Will you elaborate about that, please?

Mr. OLOFSON. Well, what I was referring to was in the second quarter of 2001, 13 of the largest, of the 18 largest IRU transactions that are shown on the sales funnel had exchanges of virtually exactly the same or similar amounts of cash. And that just—apparently they were done within the last day or two of the quarter and—

Mr. GREENWOOD. So what's your interpretation of why the companies did that?

Mr. OLOFSON. Well, I think again, I think they were trying to probably meet their revenue targets and—

Mr. GREENWOOD. Was there a business justification for those transactions?

Mr. OLOFSON. That I don't know. I'm not qualified to answer that because I really don't know what was on the other side of those transactions. I don't know what the company acquired. I do seem to recall that in some cases the capacity may not have been defined, that it was more in the nature of a credit and I think Mr. Joggerst mentioned the FLAG transactions. My recollection is FLAG booked that some kind of deferred credit, so it wasn't really defined at the time. So I really can't answer this.

Mr. GREENWOOD. Were other people in the company complaining to you that these transactions didn't seem to quote, as you said, smell right?

Mr. OLOFSON. Yes.

Mr. GREENWOOD. Can you elaborate on that?

Mr. OLOFSON. Well, I mean there were a number of people in the Beverly Hills office. We weren't doing the accounting for these transactions any longer. It was being done in New Jersey, but a number of the analysts were working on parts of analysis and some of the statements and footnotes and stuff that went in the 10Q and people were becoming more and more uneasy, wondered if there were any rules surrounding the accounting for these types of transactions any longer because originally when we just sold capacity, we didn't swap it, we had some pretty hard and fast rules. And it didn't seem like those rules applied any longer.

Mr. GREENWOOD. My time has expired. I just want to ask you one question, Mr. Olofson and then I'll have some other questions the second round. Why do you believe you were fired?

Mr. OLOFSON. I'm sorry?

Mr. GREENWOOD. Why do you think you were fired?

Mr. OLOFSON. I think I was fired because I raised these concerns. As I said in my opening remarks, I raised them in June and I did it again in the letter. I really was working within the system. I mean I wasn't out there blowing the whistle, but I do think that there's obviously enough concern and once and probably maybe the bankruptcy became imminent. I got notified the end of December that I was fired retroactively until the end of November.

Mr. GREENWOOD. My time has expired. The Chair recognizes the gentleman from Florida, Mr. Deutsch.

Mr. DEUTSCH. Thank you. Mr. Joggerst, I wanted to focus on a couple of the responses to the chairman and I have a series of questions after that, but if I heard you correctly, some of us made comments in our opening statements that at least from our perspective

the swaps didn't have a business purpose. And the analogy, I think Mr. Olofson used very well, the red truck/blue truck analogy.

I mean would your position be totally opposite that, that these, at least in your case, in the sort of the hindsight of time, all the transactions had business purposes?

Mr. JOGGERST. It was my perspective for the transactions that I was more closely involved with that there were business reasons for that. We needed additional capacity across the Atlantic. We needed additional capacity in the North American network. We had no presence in the Indian Ocean and certain parts of the world. And again, it was my perspective, I still believed, that Global Crossing was still growing our global network and that we would, in fact, be one of the survivors and we needed the network capacity reaching places where we didn't currently have it in order to fulfill that promise.

Now my caveat would be is from a sales perspective, all of that made perfect sense. If the company didn't have capital sufficient to integrate those network resources that we were purchasing into the overall network to create a more robust, seamless, all reaching network, then, in fact, I don't believe that those transactions were really, the business purpose was going to be fulfilled.

Mr. DEUTSCH. If I could focus a little bit, I understand you don't have capacity across the Pacific in certain companies and you do a swap to get that. But my understanding at this point is you were swapping basically inside the United States in areas you already had capacity and that you were doing the blue truck/green truck situation. I mean you're not personally involved in any of those?

Mr. JOGGERST. I'm not aware of anything that was actually just a blue truck/green truck kind of transaction. I will give you an example that would be in an undersea cable environment where that kind of a transaction might make sense. For example, one of the things the network engineer and my customers, wholesale customers require would be geographic or physical diversity, so in fact, if I had a facility between New York and London on one route and I needed to create another physically diverse path, one way of doing that might be to acquire that from another wholesale provider. That's just an example.

I don't know, I can't point to any examples specifically where there was just a pure exchange of exact same assets, no.

Mr. DEUTSCH. It wouldn't be exact same, but assets that you didn't need which is really the question. If it's assets that you need, that's one thing; if it's assets that you don't need, that you're doing it to create a transaction—

Mr. JOGGERST. I think that they were assets that we were purchasing that from my perspective, we needed in the long run. They weren't assets that we needed immediately, that we needed to close these deals in a very compressed timeframe, very accelerated timeframe, but I can't think of any transaction that I'm aware of that we bought something that really, that there was absolutely never any purpose for.

I will confirm that clearly there was dissension within the company. There were some people who did not hold that belief.

Mr. DEUTSCH. You told the staff that in the second and third quarters of 2001 you thought the revenue targets were unreason-

able given the current industry conditions. What were those conditions at that time?

Mr. JOGGERST. Prices were dropping. I had a concern that there were—one of the reasons why Global Crossing continued to have some success quarter over quarter is we implemented new systems to different parts of the world, opening up new markets, that we would go to our existing customers. For example, if we had an existing customer on trans-Atlantic segments, we could now go back, we could come in a couple of quarters later and offer capacity into Latin America, then into Asia. There were no more regions that we were opening up, so I was concerned that in order to—any large deals that were on the table, they would have to come from a very large outsourcing kind of arrangement of a potential, total outsource of one of our customers' networks.

Mr. DEUTSCH. Were your revenue goals reduced in 2001?

Mr. JOGGERST. Pardon me?

Mr. DEUTSCH. Your revenue goals, were they reduced in 2001?

Mr. JOGGERST. My revenue goals were never reduced in 2001 from an IRU perspective. In fact, if you consider that we looked at—as I recall, there was \$2 billion in revenue for 2001, roughly \$500 million per quarter. The first quarter we were asked to come up with \$550 million; the second quarter, \$650 million. So we were on a trajectory that would exceed even what I thought was an exorbitant target in the first place of \$2 billion for IRUs.

Mr. DEUTSCH. If you could look at Tab 21 which is a July 14, 2001 e-mail. I'm sorry, Tab 20. It's a July 14, 2001 e-mail from Tom Casey to you. In it he says "the carrier group is missing its numbers badly, is forecasting that the second half of the year would get even worse." But Mr. Casey tells you that he does not and I'll quote "not want to hear about how your part of the business is just going to continue to erode. When we meet next week, I want to know what you guys are going to do to turn around starting immediately." Is that the kind of pressure that you were talking about?

Mr. JOGGERST. Yes, this is indicative of the kind of pressure that I'm talking about.

Mr. DEUTSCH. And you pressured your team to meet these unrealistic numbers as well?

Mr. JOGGERST. What I did is we looked at ways of really engaging upper management, frankly, rather than just apply pressure to the sales force directly. What we did is say is there any way that we could achieve some large outsourcing deals with the help and support of senior management such as Tom Casey, Gary Winnick and others and they had oftentimes been involved in the process themselves. So rather than just apply pressure downward, frankly, my strategy with Mr. Casey and others would be to engage them to be part of the solution rather than just part of the problem.

Mr. DEUTSCH. Are you familiar with the term outscoping?

Mr. JOGGERST. Yes, I am.

Mr. DEUTSCH. What does it mean?

Mr. JOGGERST. Outscoping is when there's a customer that we're working with and there are—where we increase the size of the deal that we're doing with them and they increase the size of the deal they're doing with us and typically that happened a couple of times

that I can recall at the end of the quarter, particularly with FLAG and with Cable and Wireless.

Mr. DEUTSCH. And the purpose of it would be to?

Mr. JOGGERST. To meet revenue numbers for the quarter.

Mr. DEUTSCH. I mean isn't that just tying to our whole premise of not having a business purpose? I mean you're just moving the numbers up to get to those revenue numbers?

Mr. JOGGERST. I understand your point that the deals were made larger, but I don't agree that there was absolutely no business purpose ever for those assets.

Mr. DEUTSCH. Throughout 2001, Global Crossing increased the frequency and size of the reciprocal transaction. It appears that it was getting harder for the network people to identify assets to purchase. On March 9, for example, Robin Wright wrote you and said they didn't have a great deal of enthusiastic support for purchasing additional assets. This e-mail is in Tab 4.

Is that correct?

Mr. JOGGERST. Yes. As I recall, the network folks were becoming alarmed that they didn't have the resources to negotiate deals, where they were actually purchasing capacity and there were a number of people in the network organization that were in support of these kind of purchases. That's correct.

Mr. DEUTSCH. If you could take a look at Tab 9. This is on March 28, 2001. Michael Coghill, a network engineer, tells his boss that he can't justify \$15 million in U.S. West and now sales wants \$60 million, which he in good conscious and I'll quote, "cannot pretend to develop a business case that justifies that transaction."

You just overrode objections like this and particularly, I mean, did you?

Mr. JOGGERST. Again, my issue was to work with the sales team to identify targets for things for us to sell. Mr. Coghill didn't report to me, nor did Mr. Dawson, and you know and they were—this looks to me like Mr. Coghill was escalating his concern to Mr. Dawson.

That certainly is his right and again, I was aware at the time that not everyone in the network organization were enthusiastically supporting these transactions.

Mr. DEUTSCH. So in this case, I mean in a sense, you didn't care what you were buying, you just cared what you were selling?

Mr. JOGGERST. My focus was—the way most of these reciprocal transactions took place is my sales force which is really one of the largest, most well equipped carrier sales forces in the world, we knew what our customers. We knew where our network was going in the future and what their requirements might be. Increasingly, over—particularly in 2001, those customers came back to us and said yes, we'd be happy to buy from Global Crossing, but you have to buy something from us. I mean at that point it was the role of the sales person to make sure that we got the appropriate operations people involved to go through what it was that that company was proposing to sell to us.

Mr. DEUTSCH. Let me just ask one final question. If you can refer to Tab 32 which includes a September 26 e-mail from you to among others, Robin Wright, you state that "the network people have put out a string of e-mails that will kill a number of deals. These deals

represent \$250 million of our attempt to get \$675 million in revenue. Someone needs to fix this. I don't have time." Is this a good representation, really, of the——

Mr. JOGGERST. I'm sorry, what tab was that?

Mr. DEUTSCH. 32. 31, I'm sorry, 31. 31 on page 2. On the top.

Mr. JOGGERST. Yes, I see it. This is essentially me saying that, you know, particularly this was the end of third quarter and a number of the deals that are mentioned there, we didn't do with Dishnet or with Tycom, but effectively, if the network people didn't want to buy capacity, that was fine with me. I didn't have time to try and cheerlead or facilitate them acquiring something. That really wasn't my purpose. If they didn't want to buy it, don't buy it. If we didn't do the deals, then don't do the deals. They would have to really be accountable to their upper management.

Mr. DEUTSCH. But if they didn't buy it, you couldn't sell it.

Mr. JOGGERST. I am absolutely convinced that that's the truth.

Mr. DEUTSCH. So that's really that whole swap——

Mr. JOGGERST. Absolutely.

Mr. DEUTSCH. Thank you.

Mr. GREENWOOD. I'll recognize the chairman, Mr. Tauzin in a second, but Mr. Joggerst, let's go back to Tab 9 for a second because I can't help but feel that you should have covered that a little bit.

I'm going to read this to you. It says "We are now being asked to provide business cases to support this transaction. This discussion began with U.S. West at \$15 million which we could not find justification for, let alone \$60 million. We will be factual in our estimation of the value of usefulness of these assets, but in good conscience, cannot pretend to develop a business case that justifies this transaction, but rather one that will show our economic risk."

So what this guy is saying is we didn't need the \$15 million, we couldn't figure out how to justify that on the basis of capacity. Now you want to quadruple it to \$60 million and you're asking us to justify \$60 million when we couldn't justify \$15 million and the only thing they could honestly do in good conscience is say this is stupid. Isn't that right?

Mr. JOGGERST. That would be my interpretation of this e-mail as well.

Mr. GREENWOOD. Let's get straight at it here. The Chair recognizes the full committee chairman, Mr. Tauzin.

Chairman TAUZIN. Thank you, Mr. Chairman, first of all, let me cite for our witnesses a document which you don't have in front of you. It's actually a news story from The Rocky Mountain News dated 9/11/02 referring to a witness who will appear in the next panel, Lynn Turner, I'm sorry, not Lynn Turner, but Robin Wright. It refers to Lynn Turner, the former top accountant for the Securities and Exchange Commission in the last Administration. Lynn Turner is now working for Colorado State University Center for Quality Financial Reporting indicating at least in Lynn Turner's opinion that the memo prepared by Robin Wright of Global Crossing who will testify in the next panel explaining to co-workers what needed to be done for Qwest to book revenues quickly ends up being the smoking gun in this case because it details exactly the problem. But we have a lot of documents that some of you are



aware of that are sort of the paper trail leading to this conclusion that indeed this memo may be the smoking gun, if you will. And I want to refer them to you and get your thoughts on them.

First of all, Ms. Szeliga, we can go all the way back to the year 2000 when you first wrote the note to David Walsh which we have at Tab 26 in the book. This was Robin Wright, I'm sorry. I've got the wrong Robin. We can go back to that date in any effect we'll visit with her tomorrow, in the second panel rather, where she writes about being concerned with the IRU number. "I sent the note below to Gary and John and while I think they understand, I think the IRU number, indefeasible rights of use number, ends up being the plug number in order to meet the street's expectations."

Do you want to tell me what the business of plug numbers to meet street expectations are all about?

Mr. JOGGERST. I can comment. I think I've made the comment to Chairman Greenwood in that again, as I mentioned at Global Crossing it was unacceptable to not make the number, so the IRUs were really what we could do, a deal that could be done quickly for a large dollar amount, a contract that could be signed, executed quickly and then you could achieve that goal.

Chairman TAUZIN. So literally the plug number is a number you've got to meet to meet those Wall Street expectations, because if you don't meet them there are some pretty bad consequences to the company and these IRU trades was an easy way to plug those numbers in and meet those expectations. Is that essentially it?

Mr. JOGGERST. What they were was a one-time transaction where you receive a bunch of cash up front. The alternate would be to sign up a number of deals that would pay over on a monthly basis, say 3 or 4 or 5 years, but if you sign that day, say on the 2 weeks before the end of the quarter, even though you may have a large commitment for hundreds of millions of dollars, you wouldn't see that.

Chairman TAUZIN. It wouldn't be a plug number.

Mr. JOGGERST. That's correct.

Chairman TAUZIN. You wouldn't meet the expectations. In fact, we have a number of confidential members, one at Tab 30 and one at Tab 27 that sort of tell the story about what happens when a company is anxious to meet those plug numbers with deals that might not otherwise be very justifiable.

At Tab 27 we see a note from Wes Winkler to Joe Becchi talking about a deal with Velocita and I quote, "I have been charged with the daunting task of figuring out how to sell the junk we obtained over the past few quarters of reciprocal deals."

And if you look at Tab 30 you'll see Joey Wong of Global Crossing writing to someone named Robert and others, you see the address on top, "the problem with the other deals is that sales folks don't know exactly what they're getting and the product guys haven't figured out what to do with these assets and GNO buckets, so this business guy is stuck since there is no direction given. What makes it worse is that a lot of the assets we're getting, I don't think we can justify them." He goes on to say "I wish this company just come clean with the street—" that's Wall Street, right? "Regarding our guidance. This swap crap is going to kill us in the long

run and I'm personally very fed up with this business case garbage."

It gets even stronger when we go all the way to the letter that was written by someone named Michael. We don't know who that is. That's an anonymous letter on Tab 46. You'll all turn to it.

And then Ms. Szeliga, I want to talk to you about an incredible memo that follows on 43, so you might get ready for it.

But at Tab 46 we see a letter, anonymously written to someone named Mr. Harad whom the letter writer thought was on the board of Qwest Communications. It was sent to him and he forwarded it to Philip Anschutz, the chairman of the board, who obviously received it. It's a remarkable letter. It's coming now in April 2002. It begins by asking that Joe Nacchio and Drake Tempest be fired for cause and the letter writer says Qwest has violated securities laws, SEC rules, some state commission rules. It says "Joe and Drake did not order specifically subordinates to do unethical acts or illegal acts, however they set goals and targets" can I add editorially "plug numbers?" "That were impossible to obtain without engaging in unethical or illegal acts. Basically, subordinates were given the choice, Mr. Olofson, of attaining these targets or being fired. Unfortunately, at least a dozen Qwest employees chose to break the law rather than face dismissal. The SEC is searching in some of the right places where some of these violations occurred. The people involved were at least smart enough to do most things orally and left a very sparse written trail. It will either take the SEC getting lucky or employees breaking ranks in order for the SEC to uncover the smoking guns."

The last paragraph this is "consider your own liability. This letter will serve notice on you that illegal things were done at Qwest and finally concludes what I'm assuming that you learned something from Enron." This letter occurs after the Enron hearing.

So the letter indicates that all this stuff is still going on. Qwest hadn't come clean with the Street and that employees were still being threatened with being fired or breaking the law.

The most important document I want you folks to discuss with me in the time we have is a memo written from one former audit chairman at Qwest, Audit Committee chairman to then current chairman, from Peter Hellman to Tom Stevens. It's at Tab 43 and I want to quote it to you and I want to get your comments, particularly, Ms. Szeliga and Mr. Joggerst and Mr. Olofson.

It raises the question about how this stuff happens and what might be going on and it states an opinion as to what may have been wrong. It says "not that Joe"—I assume that's Joe Nacchio—"is not saying the right things" and then in parentheses "make the numbers and do it the right way, but the line people including the divisional CFOs are only hearing make the numbers. In my opinion there are well-known consequences for not making the numbers." Perhaps getting fired for the company not making the Wall Street projections, the plug numbers being there, the stock going down? We can imagine all the known consequences.

But here's the kicker "but no clear consequences for cutting corners."

Further on, "Finance people in the business unit were obscuring the appropriate facts both from AA and Robin to whom they di-

rectly report. As far as I can determine there were no consequences for their actions.”

Now it appears to me what the Audit Committee, former Audit Committee chairman is telling the new Audit Committee chairman at Qwest is look, maybe Joe’s not saying do anything wrong to make the numbers, but all the people are hearing is make the numbers. And there are terrible consequences if you don’t. But there aren’t any real evident consequences if you do the wrong thing to make the numbers.

Talk to me a bit about that. Was that the culture by which Qwest and Global Crossing found themselves in the mess they now find themselves?

Ms. SZELIGA. I don’t recall it being the culture that there were no consequences for not following process at Qwest. I think the record shows that I saw process as being very important and there were a number of instances when I personally spoke with folks who I thought hadn’t appropriately followed the policies and procedures we had in place. We reminded them of those either orally or in writing on different occasions.

Chairman TAUZIN. Give me an example.

Ms. SZELIGA. For example, I don’t recall the specific reason, but I received from my controller a concern that said I think we need to remind folks of some processes and I can’t remember what the genesis of his concern was specifically, but I left a voice mail to a number of folks in our company——

Chairman TAUZIN. Did anybody get fired for doing the wrong thing, to make the numbers?

Ms. SZELIGA. I wasn’t aware at the time that I left this voice mail I’m referring to that anybody had done anything wrong, but rather the controller was acting out of a concern that controls be followed, trying to be proactive.

Chairman TAUZIN. You know, we found no memos from anyone saying don’t you dare make the numbers by breaking the laws or breaking the rules or by hiding the true nature of one of these deals. We didn’t find any memos that said that. We found a lot of memos of people saying we’ve got problems with these deals and we’ve got troubles with them. We got conversations, we have interviews that say—Mr. Joggerst, you know what I’m talking about. There were a lot of people saying there’s something wrong with this and we shouldn’t be doing it, but there were also memos saying you’re going to get fired if you complain. Is that right?

Mr. JOGGERST. I did have the impression, I think I mentioned earlier that not meeting the number was absolutely unacceptable at Global Crossing. We had to make the quarterly number. Whether people would get fired, get shuffled aside, given a nonimportant task, I mean I’m not sure what the specific penalties might be, but I do contrast it with the early days of Global Crossing when there was much more of a collegial atmosphere where deals, pros and cons were discussed openly and——

Chairman TAUZIN. Something changed, right?

Mr. JOGGERST. And something changed.

Chairman TAUZIN. We learned about the office of the chairman when we did our Enron hearings. It’s a special kind of office. What was it composed of at Global Crossing?

Mr. JOGGERST. The office of the chairman included Gary Winnick, Lod Cook, the secretary was Sherri Cook, secretary of the company and the CEO, the point in time that we're talking about is Tom Casey.

Chairman TAUZIN. And Tom Casey and Gary Winnick were very close?

Mr. JOGGERST. It's my understanding that they had known each other for some time. Tom joined Global Crossing as our head of mergers and acquisitions from Merrill Lynch in London and it was generally thought that they were personal friends.

Chairman TAUZIN. If I told something to Tom Casey, was it generally assumed in the corporation, Gary Winnick would know it?

Mr. JOGGERST. That was absolutely my assumption.

Chairman TAUZIN. They shared everything.

Mr. JOGGERST. That would be my assumption, absolutely.

Chairman TAUZIN. I want to turn to some of the consequences of things going wrong and I've got some of your notes, Ms. Szeliga, we find them at Tab 87, if you want to refer to them.

This takes us back to June 20 or so of the year 2001. What has just happened is that Morgan Stanley has dropped a bombshell. Their analysts have said that Qwest has bloated income after its merger with U.S. West and Nacchio was furious. There are meetings and discussions about it. These are notes of your meetings, apparently, and this is strategy to handle the issue.

I take you down to number 4, and it says "quietly close Morgan Stanley out of company." Are those your notes?

Ms. SZELIGA. This is my handwriting, that's correct.

Chairman TAUZIN. So these are your notes, is that right?

Ms. SZELIGA. Yes sir.

Chairman TAUZIN. So is it correct that this is the kind of way the company reacted to Morgan Stanley criticizing it for bloating income?

Ms. SZELIGA. This is one of the ways that the company reacted.

Chairman TAUZIN. Did you, in fact, follow up and try to close Morgan Stanley out of the company?

Ms. SZELIGA. I didn't have the personal responsibility or the authority to close Morgan Stanley out of our company, but Morgan Stanley was no longer employed after the notes came out by the company to do significant banking transactions.

Chairman TAUZIN. Was this your idea or are you writing a note about somebody else's idea of the meeting?

Ms. SZELIGA. I don't recall specifically writing it, but I do believe this was some notes taken following conversations that were had with senior executives in a company as they——

Chairman TAUZIN. Give me some names of people who were there?

Ms. SZELIGA. A number of folks had conversations after the Morgan Stanley note came out including Joseph Nacchio, our CEO; Afshin Mohebbi, our COO; Drake Tempest, our general counsel. It would be not uncommon for me to participate in those conversations where the company was dealing with a very significant issue and we would get together and discuss——

Chairman TAUZIN. And this note arose from that discussion. You don't know who came up with the idea to close Morgan Stanley out?

Ms. SZELIGA. I'm sorry to say I don't exactly remember writing the note, but the tone of what I'm saying in this—

Chairman TAUZIN. Do you remember who said that?

Ms. SZELIGA. I know Joe Nacchio was very angry at Morgan Stanley and he expressed it publicly on the call that we had following the notes that were issued by Morgan Stanley analysts.

Chairman TAUZIN. You see where I'm getting at. I mean when we read a memo from one Audit Committee chairman to another saying look, we got a problem here, this business of just meeting the numbers, making the numbers, everybody getting that message, having to do it or face the consequences and anybody who gets in the way gets rolled, including an investment house that criticized the company. Let just run out the company. We're not going to do business with them any more. That's the culture I'm asking about. If that culture—Mr. Joggerst, if the culture of the company changed, and that became the new culture of the company, is that not maybe the underlying reason so many people may have according to that memo violated rules and law?

Mr. JOGGERST. It is my belief that the pressure to make the numbers became really the overriding factor in the company at that time. The pressure was uncomfortable. I can tell you myself, I remember the sales people literally did not sleep for several nights toward the end of a quarter, receiving phone calls. I can recall in the case of the 630 Network's deal receiving many phone calls, including one from Tom Casey about 11:35 the night before, that Saturday night before the first quarter books closed or before the quarter closed, making sure that the transaction with 360 Network was done.

Chairman TAUZIN. And the pressure was coming from whom in these cases?

Mr. JOGGERST. The pressure in my understanding was coming from the office of the chairman which included the individuals that I mentioned. The specific conversations that I had were largely with Tom Casey.

Chairman TAUZIN. Although it's rather obvious, and I know my time is up, Mr. Chairman, but all of this was designed to meet the numbers, to keep the stock prices high so that those who enjoyed stock ownership or options in the company might profit, is that right?

Mr. JOGGERST. That is my understanding and again, I think every company's mission statement says that they're there to increase shareholder value. What I didn't understand at the time was the financial situation that the company was in and what I've since seen is most potentially the financial harm that was being done by the company by the sales force and the operations people proceeding with a number of these deals.

Chairman TAUZIN. The other two of you, Mr. Olofson, Ms. Szeliga, if you would comment on that. Was that the problem? Was that the goal? Keep the numbers up, make the Wall Street estimates so that the stock prices can continue to benefit those who held stock or options in the company?

Mr. OLOFSON. In my opinion, I think that was always the No. 1 consideration. I think from the get go, the company was very oriented toward Wall Street and had a good relationship with all the financial analysts on the street. Making the numbers in the early days was relatively easy and I think that as Mr. Joggerst has mentioned, when the market started to decline, prices started to drop. It became more difficult to make the numbers, but the culture was still there.

Chairman TAUZIN. Ms. Szeliga?

Ms. SZELIGA. The Qwest culture was changing over time quite a bit because we had merged with U.S. West and at the time of the merger the markets were still doing fairly well. It was subsequent to the merger when we were trying to bring two very diverse cultures together that we were also faced with the market down turn and what appeared to be about a year after the merger or maybe a bit longer than that an industry that we all believed demand would continue to grow in, in fact, contracting. And so I think that the pressure that Mr. Joggerst is referring to, my recollection of how that felt and what that looked like was it wasn't that hard to make your numbers because it was growing and then all of a sudden in the midst of what was a difficult time in trying to combine two companies, there was this economic downturn and this contraction in the market that made it extremely difficult and there was certainly a heightened sense of pressure for everyone in the company and I believe in the industry to keep going and getting that done.

Chairman TAUZIN. Thank you. Thank you, Mr. Chairman.

Mr. GREENWOOD. Mr. Joggerst, I wanted you to look at Tab 32 for a second before I go to Ms. DeGette, because you've testified this morning that you believed that these transactions were all, they would have been needed eventually. The capacity would have been needed eventually, but you are just questioning the timing. Maybe we don't need it right now. Isn't that how you've testified this morning?

Mr. JOGGERST. For the transactions that I was aware of—

Mr. GREENWOOD. Here's one I think you're aware of. This is a confidential memo dated September 27, 2001. It has to do with the Qwest deal into Scandinavia and you receive an e-mail from Brian Fitzpatrick which says "I received a call this a.m. regarding the Qwest deal, specifically regarding our interest for swap capacity into Helsinki. I want to make sure we are all operating from the same place. We do not need any capacity in Scandinavia. We currently have invested \$80 million plus into this region and have no customers. To tell ourselves we will take this capacity into inventory will add value to our efforts of yielding a return on the investment we've already made is not what we want to do." And then he says "do not mask a business plan to justify an ugly deal" to which you responded, "I'm not kidding. I can't work like this where everyone is now in the mode to cover their ass by documenting opinions."

Now was that about the capacity you were eventually going to need?

Mr. JOGGERST. Clearly, it was my understanding and my belief and I did not work directly on many of the Qwest transactions, but

if somebody would ask me whether there was a requirement or a need to get capacity into Scandinavia, since I was so early into Global Crossing's tenure, yes, in fact, we did have a project called Baltic Crossing where there was even a traffic study done to look at what would be the requirements into that region of the world, and yes, I did believe that there might be some requirement going forward in the future for that.

As I already mentioned—

Mr. GREENWOOD. Even though your co-president of sales who apparently did understand what was going on in Scandinavia said this is ridiculous, we're never going to use this. We've already dumped a bunch of money into this place. We have no customers. Did you take his opinion to have some value since he seemed to understand this?

Mr. JOGGERST. This e-mail was not sent just to me. It was sent to a number of people.

Mr. GREENWOOD. I understand that.

Mr. JOGGERST. And yes, I did take his opinion into consideration.

Mr. GREENWOOD. So this morning when you testified that, in fact, it is your opinion today that all of these deals were done for some—they weren't just done to make the revenue figures, they were done because you think eventually this capacity would have been needed. Here, when you're looking at this and he says we've already got \$80 million invested into Scandinavia. We have zero customers. Let's go buy some more, you thought it made sense to you that that's probably what was going to be needed some day?

Would that have been in this millennium?

Mr. JOGGERST. My reaction, Mr. Chairman, would really be that it would be important to aggressively go out and try to pursue opportunities there. If none came to be, then we would need to look at some large outsourcing deals that I've already mentioned that were in the works that Brian Fitzpatrick worked on as well. One that would have been in the billions of dollars.

Mr. GREENWOOD. This was the Baltic deal.

Mr. JOGGERST. No, no, no. Outsourcing of a global network—

Mr. GREENWOOD. But I'm talking here, the Baltic deal. You said the Baltic deal.

Mr. JOGGERST. The Baltic deal, Mr. Fitzpatrick probably was not aware of. That was a business case that was done, I think prior to Global Crossing and Frontier merging. Global Crossing, I came from Global Crossing and Brian came from the Frontier organization.

Mr. GREENWOOD. I'd like to play Monopoly with you some time and I'll trade you Baltic for Boardwalk. The Chair recognizes the gentlelady from Colorado, Ms. DeGette.

Ms. DEGETTE. Thank you, Mr. Chairman. I'd like to follow up a little bit on Chairman Tausin's questions because I think he's hit the nerve.

Ms. Szeliga, I think you testified that you became the CFO of Qwest in April 2001. Correct?

Ms. SZELIGA. That is correct.

Ms. DEGETTE. And you were actually acting in that capacity since the beginning of 2001, right?

Ms. SZELIGA. Not exactly, Congresswoman. I was an acting CFO from approximately the beginning of March 2001.

Ms. DEGETTE. Okay. And you also are a CPA by training so you know about accounting rules and all of that?

Ms. SZELIGA. Yes, I am a CPA.

Ms. DEGETTE. And in your position as Chief Financial Officer of Qwest, I think you testified earlier you really tried to make sure that proper auditing and accounting standards were followed, right?

Ms. SZELIGA. Yes, I did.

Ms. DEGETTE. Now you also, I think, said in your opening statement or certainly in your written testimony that you worked very closely with the Audit Committee of the board, correct?

Ms. SZELIGA. Yes, I did.

Ms. DEGETTE. How often would you say you spoke with members of the Audit Committee?

Ms. SZELIGA. Over time, it changed, but generally at least quarterly and then as time went on during my tenure we were speaking up to weekly and even day after day in certain circumstances where we were resolving issues or having important discussions that were time sensitive.

Ms. DEGETTE. And would you speak with the entire Audit Committee or just certain members of the Audit Committee?

Ms. SZELIGA. Under different circumstances, it could be different, yes.

Ms. DEGETTE. Now shortly after you became CFO, and maybe before, you've been with Qwest since 1997, if I'm not mistaken?

Ms. SZELIGA. That is correct.

Ms. DEGETTE. You became concerned about these swaps shortly into your tenure, would that be fair to say?

Ms. SZELIGA. I would describe concerned as the swap transactions were consuming capital.

Ms. DEGETTE. Right, and in fact in the first quarter of 2001, the capacity swaps ate up the entire international capital budget, didn't they?

Ms. SZELIGA. The element I believe you're referring to as I recall and came to find out after I became CFO was an approved spending budget for international routes that we were trying to develop in getting our global network up and running. And in the first quarter we spent approximately the amount that we thought we would spend for the entire year on the global network.

Ms. DEGETTE. And that didn't end after the first quarter, did it?

Ms. SZELIGA. We continued to spend capital on global routes in the second quarter and a smaller amount in the third quarter.

Ms. DEGETTE. Okay, now around the summer of 2001, you started pushing for more disclosure about swaps, didn't you?

Ms. SZELIGA. I actually conferred with folks in my controller shop, and our auditors, and decided given the fact that we were continuing to build out our global network, that I thought it would be prudent to do more disclosure because it was a—

Ms. DEGETTE. So your answer is yes?

Ms. SZELIGA. Yes ma'am.



Ms. DEGETTE. Thanks. Now—I'm sorry, they only give us 10 minutes, although I know the clock has been stuck a couple of times.

So the controller also wanted more disclosure of these swaps too, correct?

Ms. SZELIGA. I would characterize it as we agreed that it was appropriate to put disclosure—

Ms. DEGETTE. Exactly. Now during the summer of 2001, did you start to get wind of—and these swaps, they could have perfectly legitimate business reasons, couldn't they, in and of themselves. We've heard some of that testimony earlier?

Ms. SZELIGA. Yes.

Ms. DEGETTE. The problem, of course, from an accounting perspective would be if there was no legitimate business purpose for the swaps, right? I'm putting it in lay person's terms, but that's, in essence, what it is?

Ms. SZELIGA. One of our processes and procedures was to determine by asking those qualified to answer the question, if there was a business purpose.

Ms. DEGETTE. Right, so in the summer of 2001, you and the controller and your staff began to hear about side agreements, did you not?

Ms. SZELIGA. There was a concern that we should reiterate and codify in writing some of our rules around how we were putting contracts together.

Ms. DEGETTE. And that was because there was some concern about side agreements, right?

Ms. SZELIGA. My controller expressed concerns to me.

Ms. DEGETTE. When was that?

Ms. SZELIGA. It was June or July or August.

Ms. DEGETTE. And what did your controller say?

Ms. SZELIGA. I can't remember specifically what he said, but he was expressing concerns that if there were side agreements, outside of the contracts being reviewed by the accountants that we may not account for it correctly and we need to make sure we had everything together so that we could get it right.

Ms. DEGETTE. Right, exactly. Well, why would your controller think there might be side agreements? Did he say?

Ms. SZELIGA. As I recall, and this is a vague recollection, he was getting questions from folks in the business units or sales organizations about that sort of thing and that led him to believe that—

Ms. DEGETTE. It might exist?

Ms. SZELIGA. Or that reiterating the controls—

Ms. DEGETTE. If you look at Tab 39 in your notebook, Tab 39 is a confidential memo from you to a bunch of people. It was cc'd to other people and that's what you're talking about, kind of trying to codify these accounting treatments of the swaps right?

Ms. SZELIGA. This is one of the things I was referring to, yes.

Ms. DEGETTE. And on page 2 of that agreement, you said "note that we are required to provide representation to our auditors that no side letters or other verbal or written agreements exist between the parties, right?"

Ms. SZELIGA. Yes.

Ms. DEGETTE. And that's based on the concern that your controller was talking about, right?

Ms. SZELIGA. What I believe he and I were trying to communicate to the people on the memo was that we were going to be making representations and that we were relying on people to give us the right information so that we could validly make those representations.

Ms. DEGETTE. Now when you wrote this memo on August 2, 2001, were you personally aware of any side agreements?

Ms. SZELIGA. I do not recall being personally aware on August 2 and I did not write it myself.

Ms. DEGETTE. But your name is on it. You obviously reviewed it before it went out.

Ms. SZELIGA. I did review it.

Ms. DEGETTE. Okay.

Ms. SZELIGA. And gave comment to it.

Ms. DEGETTE. Now some time after August 1, you personally found out about a side agreement, right?

Ms. SZELIGA. Yes, I did.

Ms. DEGETTE. And when was that?

Ms. SZELIGA. I don't recall.

Ms. DEGETTE. It was like in July, right? No, that would—when was it, October?

Ms. SZELIGA. I don't recall specifically, but it was some time in October that I became aware that there was a letter and an e-mail that would be, could be termed as side agreements, yes.

Ms. DEGETTE. And I'm sorry, so you became aware some time in October?

Ms. SZELIGA. Yes, I believe that's correct.

Ms. DEGETTE. And what deal was that that you became aware of?

Ms. SZELIGA. It was brought to my attention that there was a letter and an e-mail associated with the C&W transaction.

Ms. DEGETTE. Right. And what did you do about that?

Ms. SZELIGA. I asked my controller to, as I recall, follow up on it and I went to speak to Mr. Mohebbi, our COO and president with regard to the e-mail immediately. I believe that same day and I spoke with him as to whether he had written it and why it existed and expressed my concerns that it was not following processes and procedures.

Ms. DEGETTE. And would that be Exhibit 78 in your notebook? It's a letter dated December 29, 2000 from Mr. Mohebbi to Nick Jeffrey?

Ms. SZELIGA. I believe this is the one that I had when I was concerned about it and went and talked to him.

Ms. DEGETTE. Okay, and that was dated 2000, but you didn't find out about it until around October 2001, right?

Ms. SZELIGA. That's approximately correct.

Ms. DEGETTE. Did you ask Mr. Mohebbi were there other side agreements like this? He was the COO of Qwest at that time.

Ms. SZELIGA. I don't recall asking him if there were others. I was certainly very focused on this one, asking him what it meant and how it did come to be.

Ms. DEGETTE. What was his response?

Ms. SZELIGA. His response was I don't recall writing it. I don't believe I sent it. I'll need to look into it and I'm paraphrasing. I can't remember the exact words.

Ms. DEGETTE. And in fact, subsequently, we learned that it was said. In fact, it was a side agreement, right?

Ms. SZELIGA. I believe we came to understand that it had been sent and there was some debate about who had actually sent it and at what time, etcetera.

Ms. DEGETTE. You had a subsequent conversation with Mr. Mohebbi about this, right?

Ms. SZELIGA. I believe I did.

Ms. DEGETTE. Tell me about that?

Ms. SZELIGA. It is my recollection that Mr. Mohebbi came back and followed up with me after our initial conversation saying that although he couldn't specifically remember, he didn't think he'd sent it, but had authorized someone to send it for him.

Ms. DEGETTE. So in fact, this was authorized by the COO of Qwest, right?

Ms. SZELIGA. As I recall it, that was generally the statement he made to me and he said he did not review it before it got sent, as I recall.

Ms. DEGETTE. Do we know who he authorized to send it?

Ms. SZELIGA. I cannot remember if he pinpointed an individual. I just can't remember.

Ms. DEGETTE. Now in the meantime, that really concerned you, didn't it because what the side agreement shows is there's potentially no reason to book these swaps as legitimate business transactions, right?

Ms. SZELIGA. I thought of it more in terms of if this particular side agreement had been put in place, that we needed to follow up on this particular transaction and bring it to the forefront and investigate to determine if we had appropriately booked the revenues on it.

Ms. DEGETTE. Were you also concerned there might be other side agreements that you didn't know about, given the rumors that you had been hearing for some months?

Ms. SZELIGA. Yes, I was concerned, not generally from rumors, but that this was a break in policy and that we needed to look into it and so we took further steps.

Ms. DEGETTE. Now, in fact, you were so concerned you asked for a special meeting of the Audit Committee of the board, correct?

Ms. SZELIGA. Yes, I did.

Ms. DEGETTE. And you had a telephone meeting with the Audit Committee and you explained these concerns. This is Tab 83 in your notebook where you said, Andersen, your auditor and yourself were previously unaware of certain terms of the transactions and the size of the transactions, but it was your view the corporation didn't need to take action with respect to the accounting and then you also said you had talked about it with Mr. Nacchio, Mr. Tempest and they were comfortable and that the committee was comfortable with your recommendations, right?

Ms. SZELIGA. That is correct.

Ms. DEGETTE. Did you have any subsequent conversations with the Audit Committee about these side agreements?

Ms. SZELIGA. On a number of occasions, we discussed the policies and procedures that we had in place that would not allow for a side agreement to be made.

Ms. DEGETTE. Do you know if the Audit Committee or the board ever took any action as the result of these revelations detailed in the October 29 board meeting or Audit Committee meeting?

Ms. SZELIGA. I believe that the Audit Committee had direct conversations with our CEO. I'm not aware of the specifics of the conversation. I don't know if they spoke to Mr. Mohebbi or not.

Ms. DEGETTE. In fact, on October—in fact, they had a subsequent meeting that you were not at with Mr. Nacchio, correct?

Ms. SZELIGA. The Audit Committee spoke to Mr. Nacchio in private. I believe it was early December.

Ms. DEGETTE. And from what we know they pretty much reamed him out. Do you know anything about that?

Ms. SZELIGA. I know they were going to have conversations with him and they asked me to leave the room.

Ms. DEGETTE. Do you know if the Audit Committee did anything after they chastised Mr. Nacchio? Did they ask—did they report it to the board at large? Do we know?

Ms. SZELIGA. I believe that the Audit Committee gave full updates of our Audit Committee meetings to the members.

Ms. DEGETTE. Do we have any written minutes that show that, that you know of?

Ms. SZELIGA. I can't say for sure, but the minutes were taken at the board meetings where the audit chairmen would have had to come forward and——

Ms. DEGETTE. So if they did reveal it to the board, it would be in the minutes?

Ms. SZELIGA. Our minutes tends to be brief and——

Ms. DEGETTE. So you don't know. Do you know if they ever asked anyone, any outside auditors to look and see whether the income needed to be restated at that time as a result of these side agreements?

Ms. SZELIGA. As a result of the C&W conversation we had, they did not. As I had recommended after calculating the percentage of revenue that it represented, that I would not recommend that we go back and restate on that particular——

Ms. DEGETTE. There were many more side agreements. Did they ever do anything about that?

Ms. SZELIGA. After the meeting where I brought this to the attention of the Audit Committee, we agreed with the Audit Committee based on my recommendation that we will go back to our files, gathering them from many places and look to see if we can find any side agreements, amendments or anything like that that accounting had previously been unaware of and determine if we could find anything that would cause us to think we needed to look further about restatement.

Ms. DEGETTE. Mr. Chairman, I have many more questions as a result of that answer, but I'll ask them in the second round. Thanks for your commenting.

Mr. GREENWOOD. Thank you. The Chair is going to be flexible with the time so that everyone has all the opportunity they want.

Before I go to the next speaker, a question for Mr. Joggerst, again, I'm having difficult with your earlier testimony today that you believed that the transactions at Global Crossing engaged in would have all been justified over time, but maybe they were done sooner than needed, but it wasn't the case that it wasn't needed.

I want to read you another quick memo that came to you again from Brian Fitzpatrick. It's Tab 19. And it says "We need to make sure we are all solving for the same problem" whatever that means. "We need the top line revenue by the close of the quarter. In order to get it, we have to spend a reciprocal amount with key carriers, in this case, Qwest. Our option is to spend the same amount of cash and end up with nothing. I want to make sure the three of us are 100 percent together regarding the fact that the Eastern Europe market, Vienna to Prague, nor the Scandinavian market, up to Helsinki, would support the numbers that are stated in the attached business case. The Euro market is crashing. No one is spending \$700 million on these routes. I feel like we, you and I, are putting our names and careers on the line supporting this type transaction without having a discussion with the others about what we are really doing." When you read that memo on June 28, did you take that to mean that eventually even though he's saying there's no justification for this purchase of \$700 million, you still believed that it was eventually a capacity that the company was going to need?

Mr. JOGGERST. Mr. Chairman, let me just make a comment about this e-mail as well as the other e-mail that we looked at a moment ago from Brian regarding capacity into Scandinavia. I didn't personally work the Qwest deals. I wasn't personally involved in negotiating the terms and conditions, and frankly, when I looked at this, the e-mail that we looked at before, dated 9/27, I'm not even sure that deal was done in third quarter.

Mr. GREENWOOD. That's not the point here. The point here is you saw these e-mails. They were sent to you. And I've got a stack of them here and I haven't even read the most scandalous ones in which it was brought to your attention over and over again, capacity was being acquired for which there was no rational business deal at all, business purpose at all, not that—they didn't say we don't need this now, we'll need it later. They said we don't need this. We can't justify this. And yet you testified this morning that you thought all of these deals would eventually, this capacity would eventually be needed.

I can't reconcile the two. I don't understand how you could have seen all of these e-mails in which you were told there's no business justification whatsoever for them and then sit here and tell this committee that you thought eventually the company would need all of this.

Mr. JOGGERST. First of all, a point of clarification. What I said is for the deals that I worked closely with, that I was personally involved with, that I knew where we were acquiring assets, in those deals specifically, yes, I did believe that there was either a short term or long term purpose for them.

Mr. GREENWOOD. So are you willing to say under oath to this committee that in 2001, last year, you were perfectly aware that at least your co-president, Mr. Fitzpatrick, was screaming bloody

murder, that there were deals being done for which there was no business rationale whatsoever. In fact, that any rational effort to evaluate the business would have said these deals should not be done? Is that right?

Mr. JOGGERST. I was absolutely aware that there were a number of people including Brian who were quite upset, did not believe that the market was going to continue to grow. I think as Ms. Szeliga mentioned, I mean we were at a point where we were really sitting on top of a bubble. Some of us believed that we would continue to grow and some people foresaw that that it was going to burst.

Mr. GREENWOOD. The problem is that Mr. and Mrs. America out there banking their retirement on the numbers that you guys were putting out didn't have the inside information. They didn't know that the company was full of hot air, did they?

Mr. JOGGERST. I absolutely understand your point.

Mr. GREENWOOD. The Chair recognizes the gentleman from Kentucky, Mr. Whitfield, for 10 minutes.

Mr. WHITFIELD. Thank you, Mr. Chairman. I'd like to yield 1 minute to the full committee Chair.

Chairman TAUZIN. I thank the gentleman. I'll be brief. Mr. Joggerst, I have the memo of a meeting detailing the discussions on the 230 Network financial deal in which the counsel, Mr. Gorton, was basically cautioning against this deal. The memo is dated 4 p.m. Pacific time. This is right at the end of the quarter, get the deal done tonight or don't do it. And the pressure is to do it. People are saying don't do it on the phone. A bunch of people get kicked off the phone. What happens here?

Mr. JOGGERST. Let me explain. For a deal of that magnitude it required approval by the Board of Directors or really I think what's called a management committee consisting of many members of the board. The conference call was held. We very quickly went through the transaction in terms of what was happening and what the risks were involved and yes, I believe in the notes it does mention that Jim Gorton was really taking the lead in terms of explaining what the risks were.

I can recall on the conversation that the independent board member, Mr. Conway, expressed some serious concerns.

Chairman TAUZIN. Conway's concern, Gorton's concern, then a bunch of you get kicked off the phone and the deal is done.

Mr. JOGGERST. Yes, we were asked to leave the call, leaving Gary Winnick and Tom Casey—

Chairman TAUZIN. Now the deal we're talking about was done right at the end of the quarter, obviously to plug the numbers, meet the numbers. It amounted to a \$50 million cash transfer to 360 Network which goes bankrupt in a couple of months.

Mr. JOGGERST. That's correct.

Chairman TAUZIN. It's a great example of how this deal was pushed and done to meet those numbers even though everybody was saying it was a bad deal.

Now there's a memo, I'll try to be quick, on Tab 13 from Joe Perrone to Kurt Ross who talks about this. Because there's another side to this mess. One side of it is making up income, making up income to make those numbers. The other side is it takes company

cash away. Everyone of these deals the company has to put out some cash to make the buy and second, it also is acquiring long term debt and the memo talks about that. It says in effect that we don't know, we know about our debt issues of third parties, but we rely upon the accounting regarding capital lease obligations from Treasury, etcetera. It says "for the time being, we're using historical balances. But additional debt from these categories would be significant and result in covenant violations, consequences of violating the financial covenant are severe and the time period in which to fix it is short. And this is called panic." What a diatribe. This is panic.

But the reality is that every time the company in a panic made one of these deals to make these numbers, it also bled the company of cash and stacked up debt that wasn't accounted for and put the company in risk of failing. How could corporate executives do this to their company except for the greed of personal gain in the stock?

Could you tell me?

Mr. JOGGERST. I'll tell you, seeing this e-mail, it came as a surprise to me. Myself and I can speak for, I believe, the rest of the sales team. We're not aware that we were anywhere near getting close to breaching debt covenants, that there were the kind of capital constraints. It's normal in any corporation that I've worked for, operations never has enough capital to do what they want to do. Sales never likes the revenue numbers. They're always too high. But to have this come directly from the financing organization saying that there are some severe capital constraints which would lead in 20-20 hindsight for me to agree directly with Mr. Greenwood's comment that there would be no reason to do a number of these transactions to buy assets into Scandinavia——

Chairman TAUZIN. In fact, there was never a reason not to do it for the good of the company?

Mr. JOGGERST. There was never any capital or any really really true strong will to expand the network, to integrate it, integrate those assets and really make them useful.

Chairman TAUZIN. Thank you, sir. I'm sorry I took so much time.

Mr. WHITFIELD. Mr. Chairman, that actually was some of the areas I was going to get into, so I'm delighted that you did so.

Just to reinforce what the chairman, the point he was making, these senior executives had a lot of knowledge about the financial condition of the company, obviously, including as he said this document on Tab 13 in which they talk about—this was from Kurt Ross to Joseph Perrone. Who is Joseph Perrone again, would you tell us?

Mr. JOGGERST. I'm not sure what his exact title was, but worked for the CFO.

Mr. WHITFIELD. Okay. And in this memo, of course, it says this is the definition of panic we're about to breach our bank covenants which is a violation and it's severe and there's no cure for it and so forth.

Have you been aware, like they were aware, that the company was in danger of violating its bank covenants and had severe capital expenditure constraints on its ability to implement the packages, the purchases, what would your opinion of them, what would you have suggest that they do.

Mr. JOGGERST. If I had known that there was never any intention to continue to invest in the company, other than just doing deals to book revenue, then I would have recommended against the deals.

Mr. WHITFIELD. So you would have recommended against the deals?

Mr. JOGGERST. I would have had I know that there was really no wherewithal or ability or really will to actually continue to expand the network and to activate the assets that were being purchased.

Mr. WHITFIELD. But those higher up in the company, they obviously decided not to do that. Okay.

Mr. OLOFSON. I want to ask you just a few questions. In your opening statement, you mentioned that Chief Financial Officer Dan Cohrs told you that he would like to reduce the guidance to the street. I guess that's telling Wall Street what we're going to earn, that he would like to reduce that, but he could not because Chairman Gary Winnick had just sold nearly \$10 million shares of Global Crossing stock. Now that's kind of interesting. I'd like to be honest with Wall Street, but I can't do it, because the chairman had just sold nearly \$10 million shares of Global Crossing stock. Was this the first time that you had learned of Mr. Winnick's sale of the stock?

Mr. OLOFSON. Was this the first time I learned about Mr. Winnick's sale?

Mr. WHITFIELD. Yes, when Dan Cohrs told you, made that comment to you.

Mr. OLOFSON. My recollection was that that was public knowledge by that time. I think he sold some time in May and I think it was in the newspapers.

Mr. WHITFIELD. Did you have any concern at all about the sale of that stock, I mean its impact on the company? Did that concern you at all?

Mr. OLOFSON. I think most people were a little surprised by the magnitude of the sale and that the message that it was sending to the investors that the chairman is selling a large block of stock. It sends a message that he's not very optimistic, I guess about the results of the company.

Mr. WHITFIELD. Now do you remember the approximate date of that sale?

Mr. OLOFSON. It was some time in mid-May. I don't remember the exact day.

Mr. WHITFIELD. Of?

Mr. OLOFSON. 2001.

Mr. WHITFIELD. 2001. About the time when we already know that everyone's aware or at least certain people are aware that bank covenants are about to be violated.

Mr. OLOFSON. Yes sir.

Mr. WHITFIELD. Just what is your sense that, for example, of Mr. Winnick's involvement in the company on a daily basis, just what was your sense of his involvement? Was he a hands on guy or not?

Mr. OLOFSON. My opinion, Mr. Winnick was the Chairman of the Board, of the company, he's not in my opinion somebody that's going to operate a local telephone company and get into the details



of operations and that type of thing. I think he's more of a deal guy. I mean that's been his background, so I think that was his involvement with the company at a very high level.

Mr. WHITFIELD. Would you agree with that, Mr. Joggerst?

Mr. JOGGERST. Yes, even again as I mentioned I was an early employee of Global Crossing and I can recall we had weekly sales calls and Gary attended every weekly sales call for the first 6 months, as I can recall; that he was hands on when it came to sales and any large deals that were being done.

Mr. WHITFIELD. Can you list any specific deals that you know he was involved with?

Mr. JOGGERST. I know, other than we mentioned the 360 Network's deal. He was clearly involved with that. I recall second quarter of 2001 there was actually a press release that one of our competitors had won a deal in Asia. A request came back from the Office of the Chairman, why is this happening? I need to understand what's in the sales final and I want to become personally involved, please prepare a summary. That came from Tom Casey and I know in here there's an e-mail from Jim Gorton to Mr. Winnick with my assessment of the second quarter final.

Mr. WHITFIELD. Let me just go on and ask another question to Mr. Olofson there a minute. You also told us that in your discussion with Mr. Cohrs that he told you that the company had decided to back stop margin loans to certain officers and that he hoped the price of Global Crossing stock would increase because this would have to be disclosed in Global Crossing's next proxy statement.

Could you explain the significance of the company's decision to back stop margin loans to company officers?

Mr. OLOFSON. Well, I didn't know the specifics of what arrangements had been made, but my impression was, my understanding was that there were individuals and I don't even know who the individuals were that would have been forced to sell their Global Crossing stock because of the declining price of the stock and that rather than making them come up with monies or somehow they would essentially backstop that loan.

My understanding is—I'm not really clear on the term back stop, but I think it's kind of a secondary guarantee or some type of—

Mr. WHITFIELD. Did you know which officers were included in that?

Mr. OLOFSON. I did not.

Mr. WHITFIELD. Now in your opening statement, you mentioned that you expressed your concern about what was going on to Mr. Perrone.

Mr. OLOFSON. Correct.

Mr. WHITFIELD. And I think you indicated that he maybe threatened to terminate you. Is that correct?

Mr. OLOFSON. Correct.

Mr. WHITFIELD. Did he do that—did you—you expressed your concern in a memo that you wrote to him, right?

Mr. OLOFSON. Well, I originally expressed my concern to Mr. Perrone about the first quarter transactions, in particular, the 360 transaction that we talked about quite a bit this morning on June 1 and then eventually I wrote my letter to the Chief Ethics Officer. During this period of time the company was considering layoffs.

That had been rumored for some period of time and I think probably from the beginning of the year. It was, in my opinion, handled somewhat amateurishly because they set dates to meet with people and then cancel them and so on and so forth.

But I later found out that my name was included on a list of management people that were to be laid off and I think it was dated some time in June. It was going to be part of the layoffs that took place in August. And I didn't know that at the time.

Mr. WHITFIELD. So you were surprised at that.

Mr. OLOFSON. Well, I didn't even know it, but then I wrote my letter and then I found out that I was on that list and then I got a call from Jim Gorton, or he had called my attorney at the time, and said that I'd made the cut, so I hadn't seen this list. I didn't know I was on the layoff list to begin with and he calls him and tells him I made the cut. And then I received a letter from Mr. Perrone, dated August 15, saying that he had this position on the East Coast for me that we had talked about previously and that I should contact him and come back and we'll talk about travel allowances and living allowances and what have you. And by that time it was obvious that I was not going to be laid off. And I was advised not to go back to the company until this investigation had been resolved because Mr. Gorton had advised me in his letter to me that they were investigating the allegations in my letter and until we heard from that I didn't want to go back to the company and be accused of any complicity with what was going on in the company.

So eventually I got the letter that I was terminated.

Mr. WHITFIELD. Okay, I yield back the balance of my time.

Mr. GREENWOOD. The Chair thanks the gentleman and in fact, eventually 9,000 or 10,000 people were terminated from that company. Average American investors lost \$54 billion because of this falsification in large measure and Mr. Winnick walked away with what a half a billion dollars, \$700 million?

The Chair recognizes the gentleman from Michigan, Mr. Stupak for 10 minutes.

Mr. STUPAK. Thank you, Mr. Chairman. Mr. Olofson, I was looking at your testimony here. I'd like to ask you a question or two on it if I may. On the bottom of page 2 you said you had substantial assistance from Arthur Andersen and in particular its partner, Joseph Perrone, with whom you worked closely with on many issues. Did Arthur Andersen just do auditing or did they do financial advising? Did they do both of them?

Mr. OLOFSON. Arthur Andersen were the auditors for Global Crossing.

Mr. STUPAK. They didn't do any financial consulting or advising to Global Crossing?

Mr. OLOFSON. Oh yeah, there was a lot of consulting work done. I think from a systems perspective on the financial side I don't recall any specific projects, but there was that.

Mr. STUPAK. Did you also mention in your testimony that they did pre-issue reviews?

Mr. OLOFSON. Pre-issue reviews?

Mr. STUPAK. Yes, Arthur Andersen helped with the pre-issue reviews?

Mr. OLOFSON. Yes.

Mr. STUPAK. What are pre-issue reviews?

Mr. OLOFSON. Well, I assume by the definition that it would be a review that they would make prior to a public offering.

Mr. STUPAK. They would review the financial stability of a company before an offering? Is that correct?

Mr. OLOFSON. I don't know if financial stability is the right term, but I think——

Mr. STUPAK. When they pre-review your financial statements——

Mr. OLOFSON. Yes, I thought they would review the financial statements, sure.

Mr. STUPAK. So——

Mr. OLOFSON. It could also have occurred, and I don't know the context that you're speaking of, but it could also have occurred in terms of a merger or acquisition.

Mr. STUPAK. Sure. But the pre-issue being stock, a public offering?

Mr. OLOFSON. I know that they reviewed the documents and worked long hours for every one of the offerings that we made.

Mr. STUPAK. Did you help with these pre-issue reviews at all?

Mr. OLOFSON. Did I help?

Mr. STUPAK. Yes.

Mr. OLOFSON. Yes.

Mr. STUPAK. The financial statements, did you help on those financial statements?

Mr. OLOFSON. Yes.

Mr. STUPAK. Are you familiar with the 1995 Private Security Litigation Reform Act?

Mr. OLOFSON. No sir.

Mr. STUPAK. Also, on page 3, and you talked a little bit about the swaps and you talked about the telephone conferences in which there were swaps and—or you believe there were swaps and that Global's CEO, Tom Casey, unequivocally stated there were no swaps in the quarter and that earlier you had heard the same thing on another telephone conference.

Why was that important that the analysts would ask that question? Why would that be important to the analysts to know whether or not there were swaps?

Mr. OLOFSON. I think that these transactions became so material in the first and second quarter of 2001 that some of the financial analysts were starting to question what this was all about and I think, I don't recall the analysts or the investment banking firms, but I do recall seeing some of their reports raising this question of exchanges of capacity and something we'll have to follow up on with the company.

Mr. STUPAK. Okay. You go on to state on page 5 that you told Mr. Perrone that, and I'm quoting, "I disagree with his interpretation"—this is on the swaps—"and I also told him that additional language was vague and that the analysts and investors would not understand the ramifications of the brief mention of purchase commitments."

I've seen throughout some of the documents the word "inventive wording". Is this inventive wording? Used terms and descriptions

which would confuse analysts and others, financial analysts and others?

Mr. OLOFSON. Well, I mean it was pretty vague.

Mr. STUPAK. It's pretty vague and we're telling analysts that there are no swaps. Then we have vague language trying to clarify. What's the purpose of doing that in your opinion?

Mr. OLOFSON. In my opinion, I mean obviously, I don't know who wrote it or why. Perrone indicated to me that he put it in there, so I assume it's his words, but I assume it's to at least—if anybody challenges these transactions that the company could say that it was disclosed.

Mr. STUPAK. So we can be vague and we can use creative words and we can deny swaps and we can always say it was in their vague language, once again mislead the investor, the public, right?

Mr. OLOFSON. That's a pretty fine line.

Mr. STUPAK. And mislead the analysts who you rely upon to offer your stock to the general public, correct? Not your stock, but the company stock, correct?

Mr. OLOFSON. [No response.].

Mr. STUPAK. I know you're shaking your head a little bit, but I need to get an answer on the record.

Mr. OLOFSON. Would you repeat the question?

Mr. STUPAK. Sure. The vagueness that you give to the analysts in denying the swaps, that's to keep the analysts, financial analysts to continue to offer the stock for public consumption, to keep the stock prices up and the company going.

Mr. OLOFSON. The vagueness wasn't necessarily given just to the analysts. It was included in the press release and I think probably in the 10Q. The analysts can pick it up from there, certainly.

Mr. STUPAK. Sure. And whether it's truthful or accurate, that was neither here nor there, as long as the company stock was still being sold to the public and keep the price up?

Mr. OLOFSON. I think that was probably a very strong motivation.

Mr. STUPAK. Sure. And under the Private Securities Litigation Reform Act of 1995, as long as we put a disclaimer on the front, we're no longer legally actionable by the shareholders. They can't do anything. I need an answer. I know you're shaking your head, agreeing with me.

Mr. OLOFSON. I didn't realize it was a question. I thought you were making a statement.

Mr. STUPAK. Do you feel qualified to answer?

Mr. OLOFSON. I'm not familiar with that legislation you're talking about, but—

Mr. WHITFIELD [presiding].

Mr. STUPAK. Okay, all right. Ms. Szeliga, I'm sorry, I murdered your last name. Would you say it for me?

Ms. SZELIGA. Szeliga.

Mr. STUPAK. In your testimony, in review of your testimony, it indicates that on the swaps, Global Crossing reported the amount of the revenue received as GAAP revenue, gradually over the life of the contract, a distinctly more conservative approach than one taken by Qwest. Why would Qwest take a different approach than

Global Crossing on how they did these swaps, how they reported them?

Ms. SZELIGA. I don't know why there was a difference. I believed when we were booking those and I believe now, that we were doing our best to follow the technical literature that was out there and booking them through our books and records to reflect the transaction that we were doing. So I can't really speak to why there was a difference of interpretation or how it was different.

Mr. STUPAK. Well, your auditor was Arthur Andersen, right?

Ms. SZELIGA. That is correct.

Mr. STUPAK. That's the same for Global Crossing, correct?

Ms. SZELIGA. That is correct, I believe they stated their auditors were Arthur Andersen, today yes.

Mr. STUPAK. So this technical advice you got, you're saying Arthur Andersen gave you two different interpretations for the same transactions between these companies?

Ms. SZELIGA. I can't speak to how they accounted for their transactions that they did with us. I can speak to how we accounted for it and how we attempted to follow Arthur Andersen's guidance and interpret the technical guidance that was available to us.

Mr. STUPAK. The technical guidance, where was that received from?

Ms. SZELIGA. Well, our technical accounting team, under the controllership would use the FASBs, APBs and other pronouncements that were issued from the FASBs as well as staff accounting bulletins and such, including EITFs which are merging issues, task force types of guidance. They would come to the auditors and seek guidance and advice as to how to be sure they were applying them appropriately. In a particular situation of the IRUs, we used the Arthur Andersen white paper fairly extensively to guide us in how to book those.

Mr. STUPAK. All right, yet we have two companies, same transaction, covering it differently.

Let me go to Tab 83, the one that Ms. DeGette was asking you about, the memo there to the Audit Committee of the Board of Directors.

It says in this that you are going to—"Mr. Iwan stated that Andersen agreed with Ms. Szeliga's view of the same" and you informed the committee that you had discussed the matter with the chairman and CEO and your assessment of the matters and the reasons were the same and therefore they were comfortable with your assessment and nothing had to be done. Is that basically a good summary?

Ms. SZELIGA. It's a fair summary.

Mr. STUPAK. What was the value of this issue here, this swap here that you're concerned about?

Ms. SZELIGA. I don't recall the dollar amount. It was low single digits as a percentage of our revenue.

Mr. STUPAK. Right, it's about \$109 million?

Ms. SZELIGA. I'm not sure, I'd have to look to be sure.

Mr. STUPAK. Do you have something there you could look to see what the value of that is? Anything that you have in front of you that could help refresh your memory?

Ms. SZELIGA. I don't know, let me take a—

Mr. STUPAK. Sure, take a look at your notes or whatever you have.

Ms. SZELIGA. I believe that the detail that I have here shows the fourth quarter transaction as 109.

Mr. STUPAK. Okay, 109. And you didn't need to take any action with respect to accounting or financial reporting of those transactions, that was your conclusion?

Ms. SZELIGA. The conclusion was based on materiality analysis that I did with my controller and talked to Arthur Andersen about and talked to the Audit Committee about.

Mr. STUPAK. Sure, but wouldn't you at least have to restate your earnings for that quarter or something with \$109 million that's not there?

Ms. SZELIGA. It was my belief and understanding with the support of our auditors that because it was immaterial that we did not need to book an adjusting journal entry to restate our financial statements.

Mr. STUPAK. And that's within the accepted general principles of accounting?

Ms. SZELIGA. Yes sir, I believe it is.

Mr. STUPAK. All right, and you're not required to report that to the SEC or anyone like that?

Ms. SZELIGA. To the extent that something is deemed immaterial to the reader of the financial statement, I don't know of any specific reporting requirements that I had overlooked.

Mr. STUPAK. You've since restated that \$109 million, correct? The company has?

Ms. SZELIGA. I can't speak to the restatement. I've not been involved in the calculation of the numbers that were reported in the press release.

Mr. STUPAK. Okay. All right. Mr. Joggerst?

Mr. JOGGERST. Yes.

Mr. STUPAK. The chairman asked you a question about and he asked you a little bit about these transactions and you felt that they would all—

Mr. WHITFIELD. Excuse me, you're about almost 2 minutes over and if you could finish up here and let us give Mr. Stearns of Florida an opportunity and then we'll talk about a second round. Is that okay with you?

Mr. STUPAK. Sure. Let me just ask this one question.

Mr. WHITFIELD. All right, go ahead.

Mr. STUPAK. The chairman had asked you about the—some of the transactions, and you said all the transactions you were involved in you felt that they would have been a benefit for Global Crossing. And then you were asked a little bit about the 360 transaction there. And then a few months later they went bankrupt. I think that was like the 360, you objected to it. So you were really familiar with that one, right?

Mr. JOGGERST. I'm familiar with the 360 deal, correct.

Mr. STUPAK. And how was that going to benefit the company when you had just recommended it not be approved?

Mr. JOGGERST. What my comment was was their business purpose, did Global Crossing at that time have a forecaster requirement for transatlantic capacity—

Mr. STUPAK. Right, and you told Global Crossing it should not enter into this one. They're on shaky, financial grounds and it was not a good deal.

Mr. JOGGERST. However, yes, there were some strong concerns from myself and the entire team whether we should do this transaction at that time.

Mr. STUPAK. Did you have any strong concerns then?

Mr. WHITFIELD. Mr. Stupak, if you could bring this to conclusion.

Mr. STUPAK. This is the last question. Did you have any strong concerns then after you were told to get off the phone and then they went ahead and made the transaction, \$150 million cash was received and then about 60 to 90 days later, Mr. Winnick cashes in \$124 million worth of stock. Did you have any concerns or strong reactions then?

Mr. JOGGERST. I can't honestly say that I recall when he made his stock transaction.

Mr. WHITFIELD. Okay, I recognize the gentleman from Florid for 10 minutes.

Mr. STEARNS. Thank you, Mr. Chairman, and Ms. Szeliga, let me just ask you some easy questions. What is your educational background? It's easy to talk about yourself, I'll give you a breather here. I mean you were the CFO, correct, at one time?

Ms. SZELIGA. I was the CFO of Qwest from April 2001 until the very beginning of July 2002.

Mr. STEARNS. Can you just tell me your educational background? I'm sure the résumé is in here, if you just bear with me, just tell me you have a bachelor's?

Ms. SZELIGA. I do.

Mr. STEARNS. And what is that in?

Ms. SZELIGA. Accounting.

Mr. STEARNS. And do you have any advance degrees?

Ms. SZELIGA. I do not.

Mr. STEARNS. Okay. So you're not a lawyer.

Ms. SZELIGA. No sir, I am not.

Mr. STEARNS. You probably wish you were now. Having been through these hearings and also chairing what's called Commerce Consumer Protection and Trade, I have oversight over FASB which is the Financial Accounting Standards Board. And we've had hearings and some of the things have come up in addition to the special purpose entities which Enron used to hide debt.

Revenue recognition. And the areas I'm going to talk to you about is dealing with Qwest's revenue recognition and see if I can understand what your policy was and particularly dealing with Cable and Wireless which is, as I understand, is a company in England that you dealt with.

If you can just briefly tell me how Cable and Wireless of England and Qwest interfaced, because I have here some of the agreements that you had where you recognize, for example, on December 28, 2000, \$109 million of revenue with Cable and Wireless.

Is it possible to tell me in just broad terms how you recognize revenue with Cable and Wireless? Would you have a written agreement with them and would you buy their ports? Can you just take me through that a little bit? Do you understand my question?

Ms. SZELIGA. I do understand your question.

Mr. STEARNS. Let me just, Qwest has the fiber optics is coming to England and you've got to get to the consumers, so you call Cable and Wireless and you say look, can we use your services and your ports to get to the customers. Is that true?

Ms. SZELIGA. I'm not a sales person, nor an engineer, but we were buying capacity from Cable and Wireless as well as selling capacity to Cable and Wireless to transport voice and data services. That's my understanding of it, generally.

Mr. STEARNS. So you would sit down with the CEO which I guess was Nicholas Jeffries and did you ever deal with Nicholas Jeffries yourself as CFO?

Ms. SZELIGA. No, did not.

Mr. STEARNS. Did you deal with anybody in Cable and Wireless?

Ms. SZELIGA. Not to my recollection.

Mr. STEARNS. I have a memo here dated August 2, 2001 from you to a group of individuals including Grant Graham, Mark Shumacher, Bill Evliss and Afshin Mohebbi. Do you know those people?

Ms. SZELIGA. Yes, I do.

Mr. STEARNS. And I have this memo here, August 2, 2001, dealing with IRU accounting, some rules of engagement. Do you want to see a copy of this memo?

Ms. SZELIGA. I believe I have one here if you'll give me a moment to find it.

Mr. STEARNS. Sure. It's number 39 in our notebook.

Ms. SZELIGA. I've located it.

Mr. STEARNS. And IRU is infeasible rights of use, so you're talking in this memo, as you say, the rules of engagement, when we sit down with companies, Cable and Wireless, these are the things we should do. Is that correct in this memo?

Ms. SZELIGA. It was not an attempt to outline everything, but to deal with some specific issues. I believe we were trying to document in writing some of our procedures.

Mr. STEARNS. Okay, you had indicated just moments earlier that you did not ever deal with Nicholas Jeffries yourself?

Ms. SZELIGA. I don't ever recall ever dealing with him.

Mr. STEARNS. Now Nicholas Jefferies when he sat down to work out these IRUs, agreements, for buying the ports and everything, who would he deal with if he wouldn't deal with the CFO which is the Chief Financial Accounting Officer. Who would he deal with?

Ms. SZELIGA. I believe that the representatives from Cable and Wireless who were purchasing service with us dealt primarily with our sales organization.

Mr. STEARNS. So you had no interface with Cable and Wireless yourself?

Ms. SZELIGA. I have no recollection of ever having a direct interface with Cable and Wireless personnel.

Mr. STEARNS. When the sales people signed an agreement with Cable and Wireless would you review that?

Ms. SZELIGA. I would not review it directly, but there was a procedure in place wherein people within my organization were to be given time to look at the contracts that were being signed with any customer, given it was a large contract of this nature.



Mr. STEARNS. In this memo that you wrote, you said on page 2, "in addition to the foregoing, there will be no side letters or verbal commitments outside of the IRU, agreement that conflicts with the contractual upgrade language or specifically indicate that an upgrade will be agreed to." Right, that's what you said. So let's say that your sales people sat down with Cable and Wireless and we said okay, we have this agreement. We want to use your ports, but we also want to change this port. We can't have a fixed agreement for one port because we might have to change it. From your standpoint if you have a very flexible contract that allows them to change ports, that is Cable and Wireless, could you book that easily as revenue or not?

Ms. SZELIGA. It was our policy that we had—

Mr. STEARNS. Could you pull the mike us just a little bit closer to you?

Ms. SZELIGA. Is that better? It was our policy that we were—had to be able to clearly indicate that we had transferred the title to an asset before we recognized the revenue up front.

Mr. STEARNS. Right.

Ms. SZELIGA. To the extent that we didn't identify routes, I don't know how we could have recognized the assets.

Mr. STEARNS. I think you just made an absolutely accurate statement. And I wish I could have said it as well, but you cannot accurately book revenue if you don't have a contract that identifies the ports that you're using.

Ms. SZELIGA. That was our policy.

Mr. STEARNS. Do you recollect ever having verbal agreements with Cable and Wireless?

Ms. SZELIGA. I do not recollect ever having spoken with Cable and Wireless myself, as I referred to earlier. I saw a letter and an e-mail that were outside of the contract we had reviewed when we, Finance, reviewed the contract with Cable and Wireless.

Mr. STEARNS. So you're saying today that if there was an agreement that did not identify the ports, you would not, your company would not book the revenue?

Ms. SZELIGA. Our policy was that we needed to identify an asset and transfer title to the asset, as one of many different elements to be able to recognize the revenue.

Mr. STEARNS. Okay, so you know, I've got here Cable and Wireless contract amendment 3, December 28, 2000; the contract amount was \$109 million and you recognize it as roughly \$108,739,000 million, roughly the same amount.

So that contract was a contract that you could identify all the ports and everybody had a full understanding of what they were doing and there were no verbal agreements?

Ms. SZELIGA. I can't speak to that—

Mr. STEARNS. But philosophically that's what you're saying?

Ms. SZELIGA. Philosophically, the contract should have identified the assets that we were selling specifically.

Mr. STEARNS. Would you be surprised if Nicholas Jefferies, we asked him to be a witness and he didn't want to be a witness, so he made out an affidavit. And he made it out September 24, today.

Would you be surprised that he can actually identify documents where you made verbal agreements? In fact, he can give you an e-

mail from the person you wrote this memo to. This memo you wrote saying no, IRU accounting, please. And you wrote it to Afshin Mohebbi and he's got an e-mail from him that would indicate that he had verbal agreement. He's got another second document, this is now Nicholas Jefferies saying in an affidavit, swear under oath, that Qwest did not follow your memo and in fact, the people you addressed it to were taking oral agreements and the second document is a letter from Gregory M. Casey of Qwest to Mr. Coe and so he's saying that you went ahead and used oral agreements, contrary to what your memo said and he's implying in this that you booked the revenue on something which you did not have an accurate understanding of the ports and that goes to what I started—my time is coming out here, is that a lot of corporations, not just Qwest went ahead and booked a lot of stuff that they shouldn't have.

So I'll be glad to let you look at this affidavit, but this is basically the CEO, Nicholas Jefferies saying that Qwest took oral agreements and appears they booked these as revenue which, in your own words now, you just said, is not correct.

Ms. SZELIGA. I believe that I said that our policy was we needed to identify the assets we were selling.

Mr. STEARNS. Say that again, I'm sorry, I was just distracted. Go ahead, I'm sorry.

Ms. SZELIGA. I believe that I said it was our policy that we needed to specifically identify the assets we were selling in order—

Mr. STEARNS. Oh no, I agree with you. I think you did right. I'm just telling you some of your people didn't do that and somehow, and I'm not making any statement here other than it appears the evidence would appear that your company is booking revenue it should not have been booking, based upon oral agreements in dispute of your own memo of August 2, 2001. I think we can give you this affidavit, if someone on the staff has it.

Ms. SZELIGA. If I may make a couple of points of clarification?

Mr. STEARNS. Sure.

Ms. SZELIGA. The August memo was intended to put in writing some of the—what I thought were very important elements of our policies and procedures and that was in August 2001 after speaking with my controller.

Mr. STEARNS. That's a good point.

Ms. SZELIGA. Yes, and the deal had been done that we're referring to, I believe, in the fourth quarter of 2000. However, that was not a new policy. It was just a reiteration of—

Mr. STEARNS. Ah, it's an accounting policy that has history and it's not something new and you're just trying to say to these fellows, look, this is the law, this is the way it should be done and obviously Qwest was not—your memo is really, because Qwest wasn't following what they should be doing in your mind?

Ms. SZELIGA. In mind the memo was to make sure I continue to communicate in responsible fashion and remind people what we were supposed to be doing and how we were supposed to be following our processes and our procedures because that's what they were set up to do.

Mr. STEARNS. This is a tough question for you. You might now want to answer it.

But in your heart of hearts, didn't you know that there were oral agreements being made before and you wrote this memo, but before this memo was written, didn't you know in your heart of hearts that oral agreements were being made and that you were booking revenue based upon oral agreements where you didn't identify the ports? Didn't you know that in your heart of hearts?

Ms. SZELIGA. I don't recall knowing that, no.

Mr. STEARNS. You didn't have any suspect that this was occurring?

Ms. SZELIGA. I believe that my controller, after talking with me, was concerned that people thought they might be able to get around the rules by doing it, so we ought to recommunicate to people and let them know that that was not going to be acceptable to us.

Mr. STEARNS. The CEO of Cable and Wireless knew, Nicholas Jefferies, he knew. That's in his affidavit that he swore today. So it seems like if he knew, somebody in the organization should have known, including the CFO. And the way he indicates, this is not something isolated.

Ms. SZELIGA. May I take a moment to read this?

Mr. STEARNS. I'm sorry, you should take time. So my time is expired.

Mr. GREENWOOD [presiding].

Mr. STEARNS. Can I ask you one last question? Why were you removed as CFO?

Ms. SZELIGA. Joseph Nacchio who was the CEO of our company, exited the business and Dick Notebaert was hired as CEO. Mr. Notebaert determined that he wanted his prior CFO from another company that he worked at and whom he was very comfortable working with, to work alongside him as his CFO. And at that point, he communicated that to me.

Mr. STEARNS. So it was an amiable separation in your mind?

Ms. SZELIGA. I did not exit the business. I am still at Qwest.

Mr. STEARNS. You did what?

Ms. SZELIGA. I did not exit the business. I'm still at Qwest.

Mr. STEARNS. I understand, but generally when you move from 3 Star or 3 Star General down to Full Colonel, there is a reaction.

Ms. SZELIGA. There was a reaction of disappointment.

Mr. STEARNS. Disappointment, obviously.

Ms. SZELIGA. Yes.

Mr. STEARNS. Do you think it was fair for them to move you from CFO down to Executive Vice President? I mean a lot of people might not know the difference, but at least I do. Do you feel it was fair?

Ms. SZELIGA. I don't know that I thought of it as fair, but I didn't think of it as surprising because I think lots of times when CEOs come in to companies, they want to bring their right and left hand with them in order to feel comfortable in doing the tasks they're about to do.

Mr. STEARNS. That makes sense.

Ms. SZELIGA. So I explained to Mr. Notebaert that I understood it as a common business practice to do that. And we understood each other.

Mr. STEARNS. The old President is still there, though, isn't he?

Ms. SZELIGA. Afshin Mohebbi is still President and COO of our company.

Mr. STEARNS. It would seem like he would want to keep you.

Ms. SZELIGA. Who would want to keep me, sir?

Mr. STEARNS. Mr. Notebaert.

Ms. SZELIGA. Mr. Notebaert asked me to stay at the company and I agreed to take over—

Mr. STEARNS. Wouldn't he want to keep you still as the CFO because he's the top guy?

Ms. SZELIGA. Well, it seems reasonable to me that he would want somebody he knows.

Mr. STEARNS. Who knows the history and knows where everything is in the closets and everything in terms of how do we find something?

Ms. SZELIGA. That's not what I've been asked to stay and do and I've agreed to stay and do. I have not been involved in accounting or that element of finance since I was removed as CFO. I'm currently in charge of real estate and procurement for the company.

Mr. STEARNS. Mr. Chairman, thank you.

Mr. GREENWOOD. The Chair thanks the gentleman. The Chair would announce that we're going to do a second round of questions. It may not take, every member may or may not want to take the full 10 minutes, but if they do, it could be another hour. So first off, I want to ask the witnesses on our first panel, would any of you like a couple minute break?

Okay, we will take a 5-minute break and then I would also notify the second panel that if you haven't had lunch yet, and you'd like to have lunch before your ordeal begins, you may want to take that opportunity because you will have time to do it. There are restaurants or snack bars in this building.

So we will reconvene in approximately 5 minutes.

[Brief recess.]

Mr. GREENWOOD. The meeting will come to order. Can someone pull that door closed in the back, please?

The Chair recognizes himself for 5 minutes and we'll confine this panel to 5-minute periods of questioning.

Let me return to you, Mr. Joggerst, and I don't mean to have been too harsh on you earlier in my questions, but it is important for us to understand who knew about what and when. You've made it clear in your testimony that you felt that the transactions in which you were involved were transactions that was acquiring capacity that while not necessarily justified at the time, would be justified in the future.

You also made it clear that you knew at the time that Mr. Fitzpatrick was of the view, at least Mr. Fitzpatrick was of the view that the company was acquiring capacity for which there was no ostensible need, except for the matter in which it enabled the company to book revenues, correct?

Mr. JOGGERST. That's correct.

Mr. GREENWOOD. Now I would like for you to share with us your knowledge about who else in the company, going vertically upwards, do you believe was aware of these transactions were occurring not for purposes of needed capacity, but just to book the reve-

nues to make the world believe the company was doing better than it was. Was Mr. Winnick aware about this?

Mr. JOGGERST. Mr. Winnick was definitely aware of reciprocal transactions and for example, he had to approve our sending money to 360 Network. That's one example.

Mr. GREENWOOD. Let's be clear about my question. Of course, he was aware of reciprocal transactions.

The question that I'm asking you was do you have knowledge that Mr. Winnick was aware that certain of these swaps were being conducted, as we've illustrated in so many of these documents today, strictly for the purpose of enabling the company to book revenues when, in fact, the capacity wasn't needed and when, in fact, it was a bad business decision to go ahead and acquire that capacity.

Did Mr. Winnick know that?

Mr. JOGGERST. It's my belief that both Tom Casey and Gary Winnick both were aware that there was a significant amount of consternation in the company where people were questioning whether we would ultimately need the capacity. I do believe they would know that.

Mr. GREENWOOD. So is this a fair statement, is it a fair statement to say that Mr. Casey and Mr. Winnick were fully aware of the fact that Global Crossing was engaging in a series of transactions that involved acquisitions of capacity for which there was no business purpose and strictly done for the purpose of achieving revenues to meet their quarterly numbers. Is that a fair statement?

Mr. JOGGERST. I would—I think it's a fair statement with the exception of just weighing with absolutely no business purpose.

I can tell you that on the conference call that we had with the Executive Committee that included Mr. Winnick and Mr. Casey, that one of them and I can't recall who specifically, but one of them did say that if we don't do this deal, we won't make our quarterly numbers. So again, I mentioned there was a need, there was an understanding, a thought that we needed a trans-Atlantic—

Mr. GREENWOOD. For instance, you said you agreed with my statement except for the portion where there was no—I'd be happy to go through a whole bunch of more e-mails with you where Mr. Fitzpatrick was screaming bloody murder that these deals were not only not important in terms of acquisition of capacity, were being done just to meet the numbers and in fact were bad business, bad business. Right?

You don't believe that Mr. Casey and Mr. Winnick understood that to be the reality? Was Mr. Fitzpatrick not communicating that information up the chain?

Mr. JOGGERST. It's my belief that Brian would have fed that up the chain of command, that's correct.

Mr. GREENWOOD. So let's get it straight here, Mr. Winnick, the CEO of the company walked away with \$700 million while American investors lost \$54 billion. Mr. Winnick knew what the game was and the game was we've got to meet these quarterly numbers. We don't need this capacity in Helsinki or anywhere else, these specific cases that I've talked about, but we're going to do this even though it's in the long range bad business for the company, we're going to do this so we can have revenues generated and booked to

make the investors believe that the company is doing better than it really is.

Is that a fair statement or not?

Mr. JOGGERST. It's my belief that Mr. Casey and Mr. Winnick were definitely aware of those deals, yes.

Mr. GREENWOOD. That's not what I asked you. They're aware of the deals. Were they aware of the fact—were they aware of the nature of the deals? Not just that we bought some capacity here and we sold some capacity here. Were they aware of the fact that these deals—how could they not be aware that the fact that these deals were being done strictly to meet the numbers and in complete disregard to the need to actually get the capacity? How could they not be aware of that? Weren't they aware in negotiating some of these deals?

Mr. JOGGERST. Mr. Casey was involved in discussing the deal for 360 Network's deal directly with Greg McFaye, so there was a level of personal involvement.

In terms of Mr. Winnick getting personally involved in negotiating deals with customers, I can't recall.

Mr. GREENWOOD. Were there conference calls in which this information was made clear and Mr. Winnick was participating in those conference calls and Mr. Casey?

Mr. JOGGERST. Absolutely.

Mr. GREENWOOD. So they knew.

Mr. JOGGERST. Absolutely.

Mr. GREENWOOD. Okay, thank you. Ms. Szeliga, earlier Ms. DeGette asked you about the C&W cite e-mail sent by Afshin Mohebbi. She asked you what Mohebbi told you about who sent the e-mail and you said you could not recall. Is that correct?

Ms. SZELIGA. That's correct.

Mr. GREENWOOD. But isn't it the case that during your interview with the committee staff, you said that Mohebbi told you that he had Ken Smiley send it out?

Ms. SZELIGA. I said I believe that it could have been Ken Smiley. I don't recall specifically, but I think I told the staff that it could have been. I don't recall specifically, but I did bring up Ken Smiley's name because I generally recall that he may have mentioned it or mentioned her or a number of other people who were involved in conversations with him around that.

Mr. GREENWOOD. Okay, so your testimony today is that you're not really certain he said that?

Ms. SZELIGA. I'm not certain.

Mr. GREENWOOD. Mr. Anschutz, what is your understanding—I want to ask you the same kind of question I asked Mr. Joggerst about Mr. Anschutz. Did he know that, in fact, the company was entering into these transactions simply to meet the numbers when, in fact, it was not a valid business basis for the capacity?

Ms. SZELIGA. I believe that Mr. Anschutz believed, based on discussions he had with the senior management of the company that there was a valid business purpose for the transactions. I heard in board meetings that comment being made. And therefore, I don't have any reason to believe that he doubted the comment or otherwise.

Mr. GREENWOOD. Mr. Deutsch is recognized for 5 minutes.

Mr. DEUTSCH. We could probably go for 14 rounds. We have an excellent staff who really spent more time than any of us individually, I think, on this.

But I want to ask a general question and have each of you respond because I think this is more of a global concern. We could debate back and forth these transactions. But I think we know the result of them in terms of their revenue stream in the company and how the market looked at them. I guess a concern I have is which other companies are doing this? Obviously, in the telecom area, no other companies are doing it right now, but it would seem as if you could do swaps in almost any business, if you wanted to. And I guess a concern from the, I think from the committee perspective is really the devastation from not just on a personal basis which we can elaborate and talk about millions of individuals in America today, I mean literal devastation in terms of their personal lives, untold stories and the size. That really from a macro basis, in terms of our economy structurally, I mean in a sense what's happened through the companies that you either work for or worked for, the transparency in the markets have really been destroyed. And what else is out there? It's not just these companies, but it's a series of companies over the last 12 months that really, you know, the devastation to our economy is on par, not quite, but getting there of the Great Depression, and I think that if you can respond, if you were not with this company, would you look at those transactions the same way, that this is just a—if it wasn't illegal or improper and I think what each of you have said, I think this is different than our committee hearing with Enron where I think the Enron activity under the microscope to me is clearly illegal. I would not quite say that about this because I think there's a real question. I think it should not be allowed, but whether it was a gray area where you were able to get inside that gray area which, in a sense, I mean pushing the envelope consistently and I guess my concern is not just what's happened, but what might be out there.

Ms. Szeliga, if you were a CFO of another company and that type of transaction, a similar—it wouldn't obviously be with fiber optics, but a swap situation, how would you respond today if you were a CFO at a different company today, a widget company for that matter, doing swaps of factories or doing swaps of trucks as an example?

Ms. SZELIGA. I would generally say I think the exchange of goods and services ought to be examined to determine if it's providing economic benefit and if it, to the companies engaged and the economic benefit ought to be reflected appropriately in the financial records because that's how we attempt to communicate. So for my way of thinking it's not the swap of goods and services that's problematic. It is really the understanding that it is economically beneficial to the company and have you reflected it appropriately in your financial records or otherwise in order for it to be done correctly.

Mr. DEUTSCH. And who is the ultimate determiner of that? I think that seems to be the area because I think Mr. Joggerst's position still is that these were economically viable. I mean I think we've gotten some of these statements, the Scandinavia issue, with

all due respect, I understand your position. It's not a very strong position. You can keep arguing it from today until tomorrow, but at some point you might be the only one who believes it and you've done as good a job as you can articulating it here today, but it's hard to see it pass the straight face test even.

Mr. JOGGERST. I think what makes it difficult is your 20-20 hindsight is perfect and when we were caught up in the incredible growth and success of the company, where we were expanding, we were announcing new systems on a record level. I had been involved in under-sea fiber optics and cable since 1992, selling them to phone companies around the world and never did I ever think that private equity and private capital would be as attracted to that industry as it was. So yeah, I was caught up in what was really this incredible growth swing that really, I believed the articles that talked about the insatiable demand for internet, that yes, the truly global village was here and was here to stay and would require an increased amount of bandwidth over and over and over again beyond what all of the industry had invested so far.

Mr. DEUTSCH. What about the specific question that I'm asking. I'm running out of time, but I'll take a little bit extra since everyone else has at this point. If you were CEO, CFO of a new company that's doing this, have you learned any lessons in terms of really this whole concept of swaps and really getting a true value in transparency? Because that's the concern today.

I don't want to give a running account of the market, but the Dow is down 130 right now. We, in terms of loss of capital, I mean it really pales in comparison to the Great Depression, in terms of absolute dollars that have occurred and I think each of us really have a sense that people's lives, I'm not talking about thousands of people who lost their jobs and their life savings, but really tens of millions of Americans whose lives are fundamentally different today than they were 12 years ago about college education, about retirement, about real things. America has changed. I mean for real. And a lot of it, unfortunately, has to do with companies like yours and other companies and hopefully, they'll come back, hopefully, there's not—I don't believe there's a structural problem in our economy. I think America is strong economically with the strongest economy in the history of the world, but what has happened, what's real today is this transparency which is really the strength of our economy.

I hate using anecdotal stories, but I had friends over for lunch over the weekend and a teenage girl, she was yelling at her father for putting some money from her bat mitzvah into stocks. I mean if we're at the point where we're ready to call HHS and report her father for putting her bat mitza money in stocks, I mean that's the transparency issue and what other companies are out there? That's the point where we are today, that we've got some very bright, very creative people who are looking for the edge, but the edge not in terms of creating more value in terms of business, but more value in terms of how to get an edge in this.

I keep thinking to myself, did Warren Buffet invest in any of these companies? Probably not.

Thank you, Mr. Chairman.



Mr. GREENWOOD. The Chair recognizes the gentlelady from Colorado for 5 minutes.

Ms. DEGETTE. Thank you, Mr. Chairman. To finish my line of questioning before, Ms. Szeliga, you had said that after you found the transactions that you took to the Audit Committee in October, you went back to see if there were any other side agreements, right?

Ms. SZELIGA. Yes, I did.

Ms. DEGETTE. In fact, you found about 15 of them as I recall from what I've read, is that right?

Ms. SZELIGA. I don't know where that number comes from, but we put together a binder, fairly thick binder of amendments to contracts, exhibit to contracts and if you might want to call them side agreements and went through them with a great deal of diligence and showed them to our auditors to determine if any of them were inappropriate. By that, I mean unknown to the——

Ms. DEGETTE. How many were there?

Ms. SZELIGA. A binder.

Ms. DEGETTE. Ten, fifteen?

Ms. SZELIGA. I don't know. It was thick. They weren't bad side agreements. They were actually amendments or addendums to the contract that were reflected in the original contract.

Ms. DEGETTE. Did you ever find any other side agreements that you thought were of concern? Yes or no.

Ms. SZELIGA. Yes.

Ms. DEGETTE. How many?

Ms. SZELIGA. I recall three specifically that come to mind when we're talking about——

Ms. DEGETTE. When did you find those?

Ms. SZELIGA. In the fall of 2001.

Ms. DEGETTE. In the fall of 2001, so right around this same time as all the meeting of the Audit Committee and all was happening, right?

Ms. SZELIGA. Yes.

Ms. DEGETTE. Now what was the monetary total of those three additional agreements?

Ms. SZELIGA. I don't know.

Ms. DEGETTE. Was it in the millions of dollars?

Ms. SZELIGA. It was.

Ms. DEGETTE. Was it in the hundreds of millions of dollars?

Ms. SZELIGA. If you add the C&W transaction, I think we were talking to, which was already over \$100 million with that individual transaction.

Ms. DEGETTE. Okay, but yet it was your business judgment that that would not affect the bottom line either, those other three agreements?

Ms. SZELIGA. Actually, when we found them all, we had legal look into them to determine if there was either an inappropriateness in the way we booked them or something that would cause us to go back and need to do that. And on the C&W one, in particular, we determined that it was not binding to the contract and therefore in the fourth quarter I didn't make a journal entry to correct that.

Ms. DEGETTE. Okay, did you make journal entries to correct any of them?

Ms. SZELIGA. We did not restate under my tenure.

Ms. DEGETTE. And in fact, I think as you testified before, that under generally accepted accounting principles, you can only book the up front revenue if it's a legitimate business transaction, right? That was the accounting rule before all this happened. That's the accounting rule now, right?

Ms. SZELIGA. The intention is to reflect legitimate business transactions in the books and records of the company.

Ms. DEGETTE. And the way you found about all of these other side agreements and oral agreements, you went down to your division CFOs and found out about it, right?

Ms. SZELIGA. We went through the contract records of the company using internal legal assistants to go through those and put those in a binder for review.

Ms. DEGETTE. Did the CFOs give you that information?

Ms. SZELIGA. I'm not sure where they got the information.

Ms. DEGETTE. Let me ask you this, before the summer of 2001, the CFOs, divisional CFOs did not report directly to you and you changed that so that they did report to you, right?

Ms. SZELIGA. That's not quite correct.

Ms. DEGETTE. Okay, who did they report to before the summer of 2001?

Ms. SZELIGA. Different people at different times. We were reorganizing.

Ms. DEGETTE. But they didn't report to you, did they?

Ms. SZELIGA. Before I became CFO, some of them did.

Ms. DEGETTE. To that position?

Ms. SZELIGA. They reported into my prior position, some of them, not all of them.

Ms. DEGETTE. And these were the same—these were the ones that had been alleged to make the side agreements, right?

Ms. SZELIGA. No, Congresswoman, I don't believe—

Ms. DEGETTE. Who made the side agreements?

Ms. SZELIGA. If we're going to talk about particular ones, the C&W side agreements that we were referring to, one was a letter from Mr. Casey as referred to by one of the other Congressmen earlier, and one was an e-mail from Mr. Mohebbi as we discussed earlier.

Ms. DEGETTE. And he was the COO?

Ms. SZELIGA. That is correct.

Ms. DEGETTE. So did you ever fully ascertain how many of these side agreements there were? You know about three, but was that it?

Ms. SZELIGA. We had a number of, I'll call them side agreements, but they didn't appear to be inappropriate side agreements, because they were known at the time of the contract and were addended or attached as exhibits, so after we completed the review, we felt pretty comfortable that this was a limited universe, that we were looking at.

Ms. DEGETTE. So to what do you attribute the fact that Qwest just recently had to restate \$1.4 billion of its—

Ms. SZELIGA. I'm not in a position to respond to that because I have not been involved in their assertion as to why they restated.

Ms. DEGETTE. You don't think it was because of these accounting problems that happened back in 2000, 2001?

Ms. SZELIGA. I'm sorry, I'm just not in a position to tell you why they reached the conclusion that led to the issuance of the press release on Sunday.

Ms. DEGETTE. Thank you.

Mr. GREENWOOD. The Chair thanks the gentlelady and the Chair thanks each of you for your forbearance. You've been here for 3½ hours. Mr. Joggerst, Mr. Olofson, Ms. Szeliga, we're going to dismiss you now and excuse you now and thank you for your testimony and for your candor.

**TESTIMONY OF JACKIE ARMSTRONG, COUNSEL, GLOBAL CROSSING, LTD.; ROBIN WRIGHT, FORMER VICE PRESIDENT OF CARRIER SALES, GLOBAL CROSSING, LTD; GREG CASEY, FORMER EXECUTIVE VICE PRESIDENT OF WHOLESALE MARKETS, QWEST COMMUNICATIONS INTERNATIONAL INC.; SUSAN CHASE, VICE PRESIDENT OF INTERNATIONAL WHOLESALE MARKETS, QWEST COMMUNICATIONS INTERNATIONAL INC.; KYM SMILEY, FORMER DIRECTOR OF STRATEGIC NEGOTIATIONS, QWEST COMMUNICATIONS INTERNATIONAL, INC.; AND KENNETH F. FLOYD, DIRECTOR OF SALES IN NORTH AMERICA, FLAG TELECOM**

Mr. GREENWOOD. And I would call forth our second panel consisting of Ms. Jackie Armstrong, Counsel at Global Crossing, Ltd.; Ms. Robin Wright, the Former Vice President of Carrier Sales at Global Crossing; Mr. Greg Casey, the Former Executive Vice President of Wholesale Markets, Qwest Communications; Ms. Susan Chase, Vice President of International Wholesale Markets, Qwest Communications; Ms. Kym Smiley, former Director of Strategic Negotiations for Qwest; and Mr. Ken Floyd, Director of Sales in North America of FLGA Telecom.

Mr. DEUTSCH. Mr. Chairman, if we can just before they get set up, there's been a number of either e-mails or memos that have been mentioned by other members, including the chairman of the full committee and others. If we can just make sure that we get those as part of the record, I'd appreciate it.

Mr. GREENWOOD. The entire binder from whence all those documents came will be part.

Mr. DEUTSCH. Our staff is telling us that some of those were not in the binder.

Mr. GREENWOOD. We'll have the staff work that out and any documents to which members referred to today will be part of the record.

[Pause.]

Mr. GREENWOOD. We welcome all the panelists. We note the absence of Mr. Floyd. We trust Mr. Floyd will be joining us and will go through the administering of the oath should he return.

We welcome each of the panelists. I think all of you are aware, most of you watched the first panel. You're aware that this is an investigative committee and when we hold an investigative hearing we take testimony under oath, so I would ask if any of you have objections to providing your testimony under oath?

Okay. I also tell you pursuant to the rules of the committee and pursuant to the rules of the House, you are entitled to be represented by counsel and so I would ask if any of you are represented by counsel and we'll start with you, Ms. Armstrong, are you represented by counsel this morning, this afternoon? And could you identify your attorney, please, and also if you will push your button. Thank you.

Ms. ARMSTRONG. Jeffrey Canard and Ralph Ferrara.

Mr. GREENWOOD. Okay, we welcome you, sir. Ms. Wright?

Ms. WRIGHT. Yes, I'm represented by counsel, Jeffrey Canard and Ralph Ferrara.

Mr. GREENWOOD. All right, very well. Mr. Casey, are you represented by an attorney?

Mr. CASEY. Yes, Mr. Chairman, I'm represented by Michael Trager of Fullbright and Jaworski.

Mr. GREENWOOD. Very well. Ms. Chase, are you represented by counsel?

Ms. CHASE. Yes, Mr. Greenwood. I am represented by Ty Cobb.

Mr. GREENWOOD. Okay, Mr. Ty Cobb. And Ms. Smiley?

Ms. SMILEY. Yes. I'm also represented by Ty Cobb.

Mr. GREENWOOD. Very well. If you will stand and raise your right hand, I'll swear you in.

[Witnesses sworn.]

Mr. GREENWOOD. You are under oath. I would ask if any of you have an opening statement to make? None of you has an opening statement to make, very well. The Chair will recognize himself for the purpose of questioning and I will begin with Mr. Casey, a Qwest former Executive Vice President for Wholesale Markets who is here with us today under subpoena.

Mr. Casey has refused to be interviewed by committee staff and it is my understanding that upon advice of counsel, Mr. Casey likely will rely on his constitutional right not to testify at today's hearing. I believe that this privilege should be personally exercised before the members as we have done in the past and that is why we requested Mr. Casey's appearance today.

It is my hope that given the importance of his testimony to our investigation, he will reconsider his decision to invoke his Fifth Amendment rights and will answer the subcommittee's questions today.

Mr. Casey, let me ask you, did you or your employees provide written side or oral agreements that would permit the purchase of Qwest capacity to trade in or upgrade that capacity subject only to availability, contrary to what the written contract provided for and with the intent of deceiving Qwest's auditors and investors so that Qwest could book the revenue all at once and meet its quarterly revenue targets?

Mr. Casey?

Mr. CASEY. Mr. Chairman, ranking member, members of the subcommittee, I recognize and respect the important responsibilities of the subcommittee and I would like to answer your question today.

While that was my strong preference, upon advice of counsel, I am invoking my rights under the Fifth Amendment of the Constitution and as such I respectfully decline to provide testimony or to answer your questions today.

Mr. GREENWOOD. So you will invoke your Fifth Amendment rights in response to all questions here today?

Mr. CASEY. Yes, Mr. Chairman.

Mr. GREENWOOD. You are certainly entitled to do that and you are excused from the witness table at this time, but I advise you that you remain, subject to the process of the committee and if the committee's need is such, then we may recall you.

The Chair ask unanimous consent that I may continue with an additional 5 minutes to question the remaining witnesses on the panel and without objection, I will do so except that I see that Mr. Floyd has arrived.

Welcome, sir. Mr. Floyd, let me advise you as I have advised the other members of this panel and ask you to pull that microphone, stand right up in front of you and make sure the button is on. You're aware, I believe that we're holding an investigative hearing and that when we do that, we take testimony under oath. Do you have objection to giving your testimony under oath?

Mr. FLOYD. No, I don't.

Mr. GREENWOOD. Okay, then I would also let you know that pursuant to the rules of this committee and the rules of the House, you are entitled to be represented by counsel. Do you wish to be represented by counsel today?

Mr. FLOYD. Yes, I do.

Mr. GREENWOOD. Would you then identify by name the attorney who will represent you?

Mr. FLOYD. Mr. Michael Flannigan and Ms. Veronica Pastore.

Mr. GREENWOOD. Okay, then I'm going to need to ask you to stand and raise your right hand.

[Witness was sworn.]

Mr. GREENWOOD. You are under oath, Mr. Floyd. Did you have an opening statement that you wish to make?

#### **TESTIMONY OF KENNETH F. FLOYD**

Mr. FLOYD. Very simply, my name is Ken Floyd. I've been working with FLAG Telecom, U.S.A., Ltd. as director of sales for North America. I've been working there since February 1999. Before joining FLAG, I worked for more than 7 years in a wholesale carrier function at RCI Long Distance which had been Frontier Communications, now Global Crossing out of Rochester, New York. My primary function was the international business relationships.

I do appreciate the opportunity to participate in this forum and I am happy to cooperate and answer any questions that this committee might have.

[The prepared statement of Kenneth F. Floyd follows:]

PREPARED STATEMENT OF KENNETH F. FLOYD, DIRECTOR OF SALES, NORTH AMERICA, FLAG TELECOM

My name is Kenneth (Ken) F. Floyd and I have been working with FLAG Telecom USA Limited as Director of Sales, North America since February, 1999. Before joining FLAG, I worked for more than seven years in the wholesale carrier sales function at RCI Long Distance/Frontier Communications in Rochester, New York, with a primary focus on international business relationships.

I appreciate the opportunity to participate in this forum and I am happy to cooperate and answer any questions that the Committee members might have.

Mr. GREENWOOD. Thank you, Mr. Floyd. The Chair will correct himself. I will recognize myself for 10 minutes for questioning and each of the members will have 10 minutes as well.

Let me turn to Ms. Smiley. How are you this afternoon?

Ms. SMILEY. I'm fine, thank you.

Mr. GREENWOOD. Good. Were you involved in drafting the side letter in the side agreement that's been referred to earlier today?

Ms. SMILEY. The side letter for which—

Mr. GREENWOOD. Let me ask that question a little bit better.

Are you aware—this is the C&W side agreement. Were you involved in drafting that side agreement?

Ms. SMILEY. During the fourth quarter of 2000, yes.

Mr. GREENWOOD. Who else was involved in drafting these agreements?

Ms. SMILEY. Roger Hoaglund, Greg Casey, and some members from Cable and Wireless, I believe, Alan Coe.

Mr. GREENWOOD. It is our understanding that Qwest cannot determine who sent the Mohebbi e-mail out. We understand that Mohebbi cannot recall if he did so. Did you send the e-mail out to C&W?

Ms. SMILEY. No, I did not.

Mr. GREENWOOD. Would you look at Tab 75, please?

Do you have that document?

Ms. SMILEY. Yes, I do.

Mr. GREENWOOD. It shows that at 3:38 p.m. on December 29, you learned that Mohebbi's assistant was not in the office to send the e-mail out and we have been told by Mohebbi that he also was not in the office that day. Did you contact Mohebbi after you learned that his assistant was not in the office?

Ms. SMILEY. No, I did not. I did not have direct contact with Afshin Mohebbi.

Mr. GREENWOOD. Did you have indirect contact with him?

Ms. SMILEY. Other than sending the e-mail? I sent the e-mail to both Mr. Mohebbi and his assistant and called her subsequent to find out to say here it is, please make sure it goes out and if you have any questions, contact Greg Casey. And that's basically what I'm saying in this e-mail. After I found out that she was not in the office, she meaning Mr. Mohebbi's assistant, I let Mr. Casey know that and that was the end of my participation in this.

Mr. GREENWOOD. But with regard to Mr. Casey, how did you inform him?

Ms. SMILEY. This e-mail shows that I said I just tried to call Pam and she's out until January 3. I may have also called him on the telephone, but I can't remember.

Mr. GREENWOOD. You don't remember, recall that, okay. Do you know who sent the e-mail out?

Ms. SMILEY. I do not. I assume Ms. Mohebbi did.

Mr. GREENWOOD. Okay, did you ever have a follow-up conversation with either Mr. Mohebbi or Mr. Casey about this e-mail and whether or not it had actually been sent out?

Ms. SMILEY. At this time, I did not. Later on, I believe maybe October 2001, people at Qwest were asking questions about it and people asked me whether I sent it out and I said no, I didn't. I just always assumed Mr. Mohebbi sent it out.

Mr. GREENWOOD. Let me turn to you, Ms. Wright, and make sure your microphone is right in front of you and turned on, if you would, please.

Would you turn to Tab 5 in your binder there? Do you see that document at Tab 5?

Ms. WRIGHT. Yes, I do.

Mr. GREENWOOD. You wrote an e-mail entitled "First Quarter Reciprocal Deals." The beginning of the second paragraph starts, "Right now it looks like we'll need to make network purchases in the neighborhood of \$250 to \$350 million in order to meet the revenue target."

Why is Global Crossing having to make hundreds of millions of dollars of purchases to meet a revenue target?

Ms. WRIGHT. The sales team came up with a list of opportunities for—that they were wanting to close in the quarter. When that was added up, we knew that we had a shortfall and knew that there were some potential reciprocal deals on the table. My purpose here was to try and let the heads of the region who also had some responsibility in the capital budget process know that these things were on the table and that we would probably need to make the purchases along with the reciprocal deal in order to make the revenue targets.

Mr. GREENWOOD. Was there, in your opinion, a business purpose for everything Global Crossing purchased from counter parties in reciprocal deals?

Ms. WRIGHT. My role at this point was to track results, to work with the sale team on the opportunities. I didn't have any direct contact with any of the customers other than Qwest, so I really don't have any knowledge of the business purpose for those transactions.

Mr. GREENWOOD. Would you turn to Tab 9, please? And Tab 9 is a memo from Michael Coghill to Wallace Dawson. It says, "in reviewing the latest Qwest deal status, I see that U.S. Domestic Waves has been increased to \$60 million. We are now being asked to provide business cases to support this transaction. This discussion began with U.S. Waves at \$15 million which we could not find justification for, let alone \$60 million."

Doesn't this indicate that Global Crossing was buying millions of dollars of assets for which there was no business justification?

Ms. WRIGHT. What I believe this e-mail says is that a member of the network planning organization who worked for Wally Dawson who was head of the network had obviously severe reservations with a purchase size of \$60 million. However, there were people, other people in the company who had a different opinion. David Walsh, who was my boss at the time was a very strong believer in the market for WaveLinks and was working with a number of customers in the carrier markets, was expanding the media and entertainment, business and building of extranet. We had some opportunities on the table with carrier customers. His viewpoint was that there was a strong market for WaveLinks, so clearly within the company there were very differing opinions about the market potential here.

Mr. GREENWOOD. Would you turn to Tab 25, please? There, you'll find an e-mail dated August 30, 2000.

You wrote some thoughts which can be found beginning on the second page of the e-mail chain. At the beginning of your e-mail you express, "I am very concerned about the number for IRUs here." What was the nature of your concern with the number of IRUs?

Ms. WRIGHT. If I can take a moment to just clarify——

Mr. GREENWOOD. Please do, absolutely.

Ms. WRIGHT [continuing]. About IRUs. IRUs are not inherently bad. In fact——

Mr. GREENWOOD. Of course not.

Ms. WRIGHT. IRUs are great for the business. When Global Crossing started and I was the 25th employee, that's all we sold at that point was IRUs and that's how traditionally carriers built their networks was through IRUs. So I just want to say that IRUs are really a good thing.

Mr. GREENWOOD. We understand that.

Ms. WRIGHT. Okay.

Mr. GREENWOOD. It's like trucks are a really good thing except if you trade a blue truck for a red truck just to book the revenues.

Ms. WRIGHT. I hear your point. My concern was that I was—my concern that I was articulating to Gary Brenninger who was the finance, head of finance for the product management department was that the number that they had given us, in my opinion, was too high for the year and that there was no way that we were going to be able to meet that target, given what I knew about the market and the falling prices that we had been experiencing.

Mr. GREENWOOD. Did you feel pressured to meet a target number of sales in that quarter?

Ms. WRIGHT. Yes.

Mr. GREENWOOD. You also wrote, "as you know, prices are dropping fast and to some extent we are our own worst enemy. When saddled with unreasonable revenue expectations, we do the crazy deals at the end of the quarter."

Did you have concerns that the targets set for sales were unreasonable?

Ms. WRIGHT. I did have concerns, yes.

Mr. GREENWOOD. What did you mean about a crazy deal? Why did you refer to it as a crazy deal?

Ms. WRIGHT. Well, this panel has been talking predominantly about reciprocal transactions. What I was talking about in this particular e-mail, I believe, was that at the end of the quarter we were—I believe we were discounting too much in order to get the business. We had the best network in the world. We were built everywhere and because of some end-of-quarter pressures we were discounting and I believe that we were our own worst enemy in that we were beginning to cause the degradation in pricing since we had a lot of the inventory.

Mr. GREENWOOD. Was the increase in numbers of Global Crossing's capacity swaps over the quarters a result of the pressure sales incurred to meet target numbers each quarter?

Ms. WRIGHT. I believe that's true.

Mr. GREENWOOD. Okay. The Chair recognizes the gentleman from Florida, Mr. Deutsch for 10 minutes.

Mr. DEUTSCH. Ms. Smiley, did you work for Debra Petri?



Ms. SMILEY. Yes, I did.

Mr. DEUTSCH. Ms. Petri told us that your role was strategic negotiation and that you were the one who was supposed to get the deals. Is that correct?

Ms. SMILEY. I'm sorry, that I was supposed to do what?

Mr. DEUTSCH. Get the deals.

Ms. SMILEY. Get the deals?

Mr. DEUTSCH. Get the deals.

Ms. SMILEY. I did not bring the deals to the table. I did not approve the deals. I had no authority to approve the deals so getting the deals, no. Assisting in the negotiation of the contract, yes.

Mr. DEUTSCH. Can you explain to us why some of the biggest deals that you worked on, those with Qwest, FLAG and Cable & Wireless all claim that they had side or oral agreements outside of contract that allowed them to port the capacity they purchased from one asset to another, that they might select later?

Ms. SMILEY. I did not make any oral agreements with any of the customers on the contracts that I negotiated. We negotiated the upgrade provision of the contract very hard. Qwest maintained and I maintained that we had to have upon mutual agreement of the parties. Was there a reason for them to expect that we would not give mutual consent? No. Because in my opinion that would be bad faith negotiation if I'm negotiating a provision that I know that says upon mutual consent and going into it, I know that we're never going to consent. So when we were negotiating, we had no reason to believe that we would not give the consent.

Did I say or do anything that would contradict the contract terms that we are negotiating? No.

Mr. DEUTSCH. Mr. Floyd, could you respond to that as well? The question? Because our understanding is that Qwest, FLAG and Cable and Wireless claim that they had side or oral agreements. And why would they claim they had side or oral agreements?

Mr. FLOYD. During one of the deals that we had put together. There was an agreement to upgrade at a later time to a different system increased capacity. And that is FLAG's position.

Mr. DEUTSCH. And that was an oral agreement?

Mr. FLOYD. Yes.

Mr. DEUTSCH. Ms. Smiley, with Cable and Wireless deal that you were involved in at the end of 2000 with Mr. Casey and Mr. Mohebbi, Cable and Wireless wanted a side letter to the agreement for the swap or capacity. It was Alan Code, Cable and Wireless who asked for that letter. Is that correct?

Ms. SMILEY. That's my understanding. I was not involved with the conversations between Qwest and Cable and Wireless as to why Cable and Wireless wanted that. I was just asked to change language in a document and forward it for approval Mr. DEUTSCH. Did Cable and Wireless also draft the letter?

Ms. SMILEY. Yes, they did.

Mr. DEUTSCH. The letter states the following. "Cable and Wireless may exchange some or all of the original capacity for OC 192 WaveLink capacity on the routes indicated in Exhibit A on other routes that Qwest may have available to which Cable and Wireless U.S.A. agree before December 31, 2001, the exchange capacity."

This would allow Cable and Wireless to trade in capacity purchase uncertain routes for other routes, is that correct?

Ms. SMILEY. Is there a copy I can take a look at?

Mr. DEUTSCH. Yes, 76 and 77.

Ms. SMILEY. Okay, I'm sorry, could you repeat your question?

Mr. DEUTSCH. 76 and 77.

Ms. SMILEY. Oh, I have the tab. Could you repeat your question?

Mr. DEUTSCH. Well, the question is, is this a cause that would allow Cable and Wireless to trade in capacity of purchase uncertain routes for other routes?

Ms. SMILEY. It does allow for an upgrade upon mutual agreement of the parties. It's my understanding that the auditors had approved certain language that would be in the contract that would say under certain terms and conditions the purchaser could sell back capacity to Qwest and Qwest would sell them exchange capacity.

Mr. DEUTSCH. But Cable and Wireless was not satisfied with this letter. It wanted further e-mails from Afshin Mohebbi, Qwest present. Is that correct?

Ms. SMILEY. Again, I wasn't involved in those conversations. I don't know why they asked for it. The only thing I was told—again, I wasn't personally involved in those discussions, I was told it was more of a comfort—this was a letter about pricing and then the subsequent e-mail was more of a comfort e-mail that we worked with you in the past. We're going to work with you in the future.

Mr. DEUTSCH. I mean if you don't know about the letter, how do you know it was about pricing, if that was the issue?

Ms. SMILEY. That's what I was told.

Mr. DEUTSCH. By who?

Ms. SMILEY. I believe Roger Hoaglund, but I'm not positive sitting here today. This was a long time ago and it wasn't something that stuck out in my mind.

Mr. DEUTSCH. Who would have drafted that e-mail?

Ms. SMILEY. Who would have drafted the e-mail? Are we talking about the e-mail or the side letter?

Mr. DEUTSCH. The e-mail.

Ms. SMILEY. The e-mail from Mr. Mohebbi? It's my understanding that Cable and Wireless created the original draft and forwarded it to Qwest and it was negotiated between Roger Hoaglund and Greg Casey and Alan Coe.

Mr. DEUTSCH. According to an e-mail that you did send on December 29 which is Tab 75 to Pam Deatru, Mr. Mohebbi's assistant, this e-mail was supposed to be sent by Mr. Mohebbi to Nick Jeffries at Cable and Wireless in London. Is that correct in London?

Ms. SMILEY. Yes.

Mr. DEUTSCH. And the e-mail states as follows "Qwest understands your concerns regarding the language in that side letter as agreed upon by the parties. This e-mail is intended to assure you that in accordance with Qwest past practice Qwest will honor the understanding and intention of the parties with regard to any request by Cable and Wireless to obtain a full and fair trade of the capacity in Exhibit A of the agreement, of the 192 WaveLink capacity. Qwest guarantees that Cable and Wireless requests such a

trade prior to December 31, 2001 and Qwest shall provide such capacity.”

Was Pam Deatru in the office on December 29, 2000?

Ms. SMILEY. It's my understanding that she was not.

Mr. DEUTSCH. And you e-mailed Greg Casey to that effect that 3:38 p.m., is that correct.

Ms. SMILEY. Yes.

Mr. DEUTSCH. And what did Greg Casey tell you to do at that point?

Ms. SMILEY. Nothing. I did not do anything further regarding this e-mail. I sent it off. It was sent to Afshin and his assistant and I informed Greg Casey that Afshin's assistant wasn't in and that he need to contact Afshin. I had no further involvement after that point.

Mr. DEUTSCH. So how did you know his instructions were carried out?

Ms. SMILEY. I saw an e-mail in October 2001 that was sent to us from Cable and Wireless and they had received around this timeframe and the e-mail had come from Mr. Mohebbi's computer.

Mr. DEUTSCH. So at that point you went home and you forgot about it? This is \$109 million transaction as far as we're aware at this point?

Ms. SMILEY. I did my part of it. I revised the language as I was requested. I forwarded the e-mail as I requested. I didn't have direct contact with Afshin Mohebbi so it would not be my place to follow up with him and call on him. I did what I was asked to do and then I went home.

Mr. DEUTSCH. Was that contract signed in that quarter, the fourth quarter?

Ms. SMILEY. Yes, it's my understanding it was.

Mr. DEUTSCH. Earlier today, Robin Szeliga testified that when she found out about the Cable and Wireless letter and the e-mail from Mr. Mohebbi she asked Mr. Mohebbi about it. Mr. Mohebbi said he was not in the office that day and had not read the e-mail, but he authorized someone to access his computer and send out the e-mail. According to Ms. Szeliga, that person may have been you, is that correct?

Ms. SMILEY. It absolutely was not me. I have never accessed Mr. Mohebbi's computer. I have never sent any e-mails on his behalf. That is absolutely not correct.

Mr. DEUTSCH. Did you have Mr. Mohebbi's access code to his computer?

Ms. SMILEY. No sir, I did not.

Mr. DEUTSCH. Mr. Floyd, you represent FLAG which is one of several companies which has told us that sales people from Qwest promised that if they bought certain capacity from them it could be traded for other capacity at a later date. Is that correct?

Mr. FLOYD. The premise was that we were buying a certain amount today and being able to get some capacity later when it became available. It was not available at the time that we contracted for it.

Mr. DEUTSCH. At Tab 67, there was an e-mail dated June 4, 2001 from Susan Chase to Greg Casey. Ms. Chase states that for Qwest to start recognizing revenue on this \$20 million IRU it would sell

FLAG 10 STMs on Pacific Crossing. FLAG would then pour it over to 16 STMs on Japan U.S. within 2 or 3 months once Japan U.S. is turned on. Who are Susan Chase and Greg Casey and what exactly are they proposing?

Mr. FLOYD. Who are they?

Mr. DEUTSCH. That's correct.

Mr. FLOYD. Susan Chase is sitting to my left as the Vice President of International Wholesale Markets. Greg Casey was the President of that group. What they are suggesting here was exactly as I was just saying. We bought a certain amount of capacity today and getting an increased capacity in the new system when it was available. It hadn't been available as of yet, the Japan U.S.

Mr. DEUTSCH. Thank you.

Mr. GREENWOOD. The Chair recognizes Chairman Tauzin for 10 minutes of inquiry.

Chairman TAUZIN. Thank you, Mr. Chairman. We thank this panel for appearing and for testifying and let me first take you back, Ms. Smiley and Ms. Armstrong, to April 2001. I passed out a document to you indicating a series of e-mail communications in which you, Ms. Smiley, apparently communicate to Robin that "I understand the issue with the end points. I really do not want to lose the flexibility we currently have and that we can designate which end points we want when we choose to activate them, etcetera. I know this is a quirky request but it's something our auditors are not requiring."

Can you tell us, Ms. Smiley, what your auditors were telling you you had to have in the deal?

Ms. SMILEY. Yes sir, I can.

Chairman TAUZIN. What exactly were they telling you?

Ms. SMILEY. At that point in time and prior to that point in time when Qwest purchased capacity from another provider such as Global Crossing, Qwest was not required to activate the capacity it purchased by the end of the quarter. In contrast, when Qwest sold capacity, Qwest was required to activate it and the customer accept it before the end of the quarter.

Around this timeframe what happened was the auditors came out and said if you're doing a transaction where Qwest is making a purchase from a customer to whom it is also selling capacity, if we sell them capacity and they pay for it and we deliver our capacity, then if we buy capacity from them and we pay for it and they don't deliver it, then it has the appearance that we're financing our own transaction. So therefore they said at that point if we are paying for capacity that we are purchasing at the same time we were selling capacity, then we needed to have it activated. That was, to my knowledge, a new requirement this quarter and I was asking them to activate the capacity for us.

Chairman TAUZIN. That was a problem because the contracts didn't require that it be activated in that quarter. You had that flexibility in the contracts, is that correct?

Ms. SMILEY. Sir, the point of flexibility that I'm talking about here is when Global Crossing sold the capacity to Qwest. There were a couple of different POPs, points of presence, that Qwest could have the capacity activated to in Japan as well as three different options in the United States. It was over the same trans-Pa-

cific cable system so it's still the same capacity, but it's either going to go from the cable landing station and land at one area in Japan or another.

Chairman TAUZIN. Why were the auditors requiring that, for what purpose? What difference did it make for Qwest?

Ms. SMILEY. It was my understanding that they needed it for the revenue recognition.

Chairman TAUZIN. What is revenue recognition? What is that?

Ms. SMILEY. I'm not an accountant, sir.

Chairman TAUZIN. Doesn't it mean to get the revenue recognized for purposes of that quarter?

Ms. SMILEY. That's my understanding of the term.

Chairman TAUZIN. That's to make the numbers. So to get Qwest to make the numbers, you had to somehow deal with this flexibility issue.

Ms. Armstrong, you responded, I believe, in this same series. "I understand quirky. We do quirky all the time. We'll be happy to help as long as we don't go to jail or something. Let me know what you find out."

And then you came back and responded, I believe, Ms. Smiley, with "Believe me, I would never ask you to do something that would end up with that result. I don't like orange, although I like black and white, I don't prefer those stripes." Is that correct?

Ms. SMILEY. Yes sir. I made very clear that I would not ever ask her to do anything that would end in that result. I was not asking her to do anything improper. And I made a joke.

Chairman TAUZIN. You sent some interesting e-mails around not too long after in June and it's Tab 55 if you want to follow with me. It's entitled a "Bump in the Qwest Road." "We agree to move forward but I want to alert you to an issue that came up this evening and has to do with portability and here's the deal. In our deals with Qwest, our capacity of stock fiber that we buy from them has to be activated in order for them to get revenue recognition" and you go on to say that "Susan and I agree with Greg Casey and David. We'll talk some time tomorrow and just get gentlemen's agreement and we'll work out together to establish pricing, the purchase price. David, I'll work it out with Jean."

The issue on pricing also came apparently from the accountants. "Our argument has been that we do not want to be penalized for their rev recognition problems. Now their accountants are insisting that it has to be fair market value instead of what you paid for it."

So you had two problems. You had the portability issue, the accountants are saying you can't do that in the contract and get Qwest its numbers and you also have to have agreement on pricing that reflects something other than what you paid for it, something like fair market value. Is that right, Ms. Wright?

Ms. WRIGHT. Yes, there are a couple of issues here and let me see if I can walk through them.

Chairman TAUZIN. All right.

Ms. WRIGHT. First of all, on the issue of portability, portability gave us the flexibility to move the capacity based on customer requirements. We had had a history of having portability in our contracts with Qwest and during the first quarter of 2001 we were working on the language for portability. They always knew that it

was a requirement of ours to have portability. We were not interested in pursuing it if we didn't have portability.

Chairman TAUZIN. You had to have it and you also had to have an agreement from them that they would consent. Isn't that correct?

Ms. WRIGHT. That is correct.

Chairman TAUZIN. In effect, you had to have an agreement from them that they would give you consent, you had consent guaranteed to you, according to your understanding in these contracts on portability, and yet the accountants are telling Qwest that if you do it that way, you can't get revenue recognition.

So where did you get these agreements that they would consent? Is that in the documents?

Ms. WRIGHT. I believe the documents actually said good faith efforts—I don't remember the exact—

Chairman TAUZIN. What do they explain to you about revenue recognition? Do you understand it the way I just understood it, that if they give you consent agreements like that in documents, they could not get revenue recognition. Did they explain that to you?

Ms. WRIGHT. Revenue recognition was an issue with every customer that we dealt with and every customer, every contract was different in terms of requirements. Testing of circuits, accepting of circuits—

Chairman TAUZIN. What did Qwest tell you?

Mr. FERRARA. Excuse me, Mr. Chairman? Mr. Chairman, one of the regrettable risks in inviting a witness to have counsel to a company representative and advise her, I would respectfully ask the Chair to ask Chairman Tauszin to let the witness finish her answer before there's a second question, please. She's been interrupted twice. We'd like her to finish her answer if that would be agreeable.

Chairman TAUZIN. Mr. Chairman, I'm going to interrupt any witness who is not answering the question I asked them. I didn't ask the gentlelady to go in that discussion. I asked the gentlelady to tell me what did Qwest tell her about their understanding of revenue recognition and I'll be glad to hear her out if she'll explain that to me.

Mr. FERRARA. With respect, thank you, sir.

Chairman TAUZIN. Thank you, sir.

Ms. WRIGHT. We didn't have an extensive discussion about what they needed for revenue recognition other than some circuits had to be activated, had to be designated and activated prior to the end of the quarter.

Chairman TAUZIN. Now Ms. Armstrong, in again a memo that is Tab 63, regarding some e-mails that you sent, if you'll follow with me, this is a memo apparently entitled—the whole thing is entitled “From Robin Wright to Jamie Lorinia.”

You write, “As everyone involved knows the portability language is not great, we need their consent to the swap and we had their word that they would consent.”

Is that correct?

Ms. ARMSTRONG. Yes.

Chairman TAUZIN. Who had given you their word that they would consent?

Ms. ARMSTRONG. The written agreement that we had with them on portability.

Chairman TAUZIN. I didn't hear you, I'm sorry.

Ms. ARMSTRONG. I'm sorry. The written agreement that we had with them on portability provided that the right for Global Crossing to exercise its portability option was subject to the consent of both parties, both Global Crossing and Qwest.

Qwest indicated to us in meetings and on conference calls that they would, in fact, give that consent.

Chairman TAUZIN. So it's your testimony that Qwest in their conference calls and meetings orally committed to consent in order that you might get mutual agreement on portability?

Ms. ARMSTRONG. Yes. They weren't saying anything that was contradictory to the agreement and the agreement did give us the right to portability, but it was subject to their consent. And what they were saying basically was we will give you that——

Chairman TAUZIN. Don't worry about it, you'll get consent.

Ms. ARMSTRONG. Yes.

Chairman TAUZIN. Who at Qwest was giving you those oral assurances?

Ms. ARMSTRONG. It was Susan Chase.

Chairman TAUZIN. I'm sorry?

Ms. ARMSTRONG. Susan Chase. She was the principal negotiator for the——

Chairman TAUZIN. It's your testimony that Susan was giving you oral, Susan Chase, was giving you oral commitments, not to worry that the consent would be available to you on these mutual agreements, is that correct?

Ms. ARMSTRONG. Yes.

Chairman TAUZIN. Ms. Chase, would you like to comment, please?

Ms. CHASE. I did not give oral consent——

Mr. GREENWOOD. Ms. Chase, pull your microphone up nice and close.

Ms. CHASE. Sorry about that. Yes, Congressman Tauzin, I did not give oral consent. I'm not in a position to make those types of decisions. I have a large group of people behind me that look and review every transaction and every issue and I also have a senior vice president and executive vice president that I reported to.

However, I had no reason to believe that my company would not give mutual consent. During that timeframe I cannot recall any transaction that I had ever been involved with whereby we did not give mutual consent.

Chairman TAUZIN. You are testifying you didn't have the authority to say that, but did you say that?

Ms. CHASE. I did not say that.

Chairman TAUZIN. You never told Ms. Armstrong in these conversations that your company would guarantee consent on these agreements?

Ms. CHASE. I never expressed that Qwest would guarantee consent.

Chairman TAUZIN. Ms. Armstrong, you're saying that's exactly what you got from Qwest.

Ms. ARMSTRONG. Yes, Susan Chase and Robin Wright were the business people involved in this deal. I'm a lawyer. I was there to document the transaction and so the assurances were made to Robin, but obviously I was on the call in the meeting and heard them.

Chairman TAUZIN. Ms. Wright, you're here to tell us whether or not you believe—you've heard two different stories here. Who's correct?

Ms. WRIGHT. I believe Jackie is correct. It's my firm belief that we had their oral assurance that we could port the circuits.

Chairman TAUZIN. Ms. Armstrong, if you didn't have the oral agreements that you would get consent on portability, would you have entered into those contracts? Would you have recommended the company enter those contracts?

Ms. ARMSTRONG. That wouldn't have been my decision, but I would be very surprised if the company had done the deal without those representations.

Chairman TAUZIN. You'd be very surprised if it had done the deals without the consent being guaranteed?

Ms. ARMSTRONG. Yes, the background to this was that Qwest and Global Crossing had been doing business together for several years and had very good relationship. Whilst we were relying on what they were telling us, clearly it would make business sense for them to agree to give us the portability in the future when the occasion arose.

Chairman TAUZIN. Later on in December, Tab 65, if you want to follow with me, 65, Ms. Armstrong, you sent an e-mail to Ms. Smiley at Qwest.

It reads as follows: "I cannot stress enough how concerned and frustrated we are with this. As you know, when we did this deal and the other similar deals with Qwest, where portability was involved, the capacity which was activated was for Qwest's internal reasons that which you were able to activate by the end of the quarter, rather than that which we actually required. Everyone involved was clear that the only reason this was accepted was in reliance on Qwest's unequivocal representation that the capacity would be ported to the required routes after the event."

In effect, saying the only reason anybody agreed with these deals was upon those assurances of consent. Is that correct?

Ms. ARMSTRONG. Yes, I mean this is backing up exactly what I've just told you, that that was the understanding we had when we did the deal.

Chairman TAUZIN. That was addressed to Kym Smiley, is that correct?

Ms. ARMSTRONG. Yes, because Kym was present on conference calls and meetings when this was said. I can't actually remember what Kym said and whether she said anything on this, but she was definitely present.

Chairman TAUZIN. So what we have is a situation, as I understand it, and correct me if I'm wrong now, but I think I've got it.



Is that you signed some deals and the deals say that part of the deal will give you the right to portability, the right to make these choices when you need them?

Ms. ARMSTRONG. Yes.

Chairman TAUZIN. But the oral understandings are that you're going to get their consent to whatever you need in terms of that portability when you require it, right?

Ms. ARMSTRONG. No, the terms of the deal were that we would get portability, but it was subject to their consent. All we were saying was we will give you that consent. It wasn't contradict to what was written down.

Chairman TAUZIN. That's my point.

Ms. ARMSTRONG. Yes.

Chairman TAUZIN. You've got a deal that said you had portability, subject to mutual consent, but then you got an oral agreement saying don't worry about mutual consent because you're guaranteed it.

Ms. ARMSTRONG. It didn't say don't worry about mutual consent. It said we will give you that.

Chairman TAUZIN. We'll give it to you.

Ms. ARMSTRONG. Yes.

Chairman TAUZIN. And at the same time the accountants over here are telling Qwest you can't do that. You can't do that and make the numbers.

Ms. ARMSTRONG. I mean I have no idea what Qwest's internal accounting and revenue issues were.

Chairman TAUZIN. But you referred to it in your e-mail, Ms. Armstrong. You basically say "because of Qwest's internal reason." You knew where they were, didn't you?

Ms. ARMSTRONG. No.

Chairman TAUZIN. You didn't know?

Ms. ARMSTRONG. They told us that the reason they wouldn't put it in writing, they would say, they wouldn't take out basically the requirement for consent so that it was an unequivocal right for Global Crossing was that they had accounting or revenue issues with it. I have no idea what those issues were.

Chairman TAUZIN. They never explained that to you?

Ms. ARMSTRONG. No.

Chairman TAUZIN. All you knew was that they had revenue and accounting issues involved and therefore they couldn't put it in writing?

Ms. ARMSTRONG. Yes.

Chairman TAUZIN. You never asked are we participating in a fraudulent scheme here?

Ms. ARMSTRONG. No.

Chairman TAUZIN. Are we trying to defraud anybody if we can't put it in writing, we have to hide it in an oral agreement?

Ms. ARMSTRONG. No, of course, I didn't.

Chairman TAUZIN. Nobody ever asked that question?

Ms. ARMSTRONG. No. Every customer we dealt with had lots of—had different, as far as I could see, and I don't even understand completely Global Crossing's accounting and revenue requirements. But every customer we dealt with had different accounting and rev-

enue requirements. We could not possibly understand what they were.

Chairman TAUZIN. But Ms. Armstrong, again, just as a layman looking at this, is it ordinary to have secret, unwritten agreements that have to be kept secret because otherwise it will threaten revenue recognition which I understand to be reporting revenue to the public, publicly traded company, is that normal?

Ms. ARMSTRONG. There's nothing, as far as I was—there was nothing secret about this.

Chairman TAUZIN. How many other oral agreements have you had with other companies like that?

Ms. ARMSTRONG. Well, things are often said in the context of negotiations about how a company is going to perform in the future.

Chairman TAUZIN. But you thought this was pretty binding.

Ms. ARMSTRONG. I'm sorry?

Chairman TAUZIN. You thought this was pretty binding to the agreement. You told me that you don't think your company would have entered into the agreement without it and yet it was an oral agreement that you had to count on and the persons giving you the oral agreement are telling you we can't put that in writing because our accountants won't let us. Doesn't that raise a red flag to you?

Ms. ARMSTRONG. I said that—I'm sorry, I have forgotten the beginning of your sentence.

Chairman TAUZIN. Let me try it again. Again, you're representing a company that's about to enter into a deal with another company. You tell me the consent to portability in your opinion was so important that you don't think your company would have made the deal but for that consent by guarantee.

Ms. ARMSTRONG. Uh-huh.

Chairman TAUZIN. You also tell me the company is telling you we can't put that in writing though because our accountants tell us that gives us revenue recognition problems.

Ms. ARMSTRONG. Well, they didn't go into that much detail.

Chairman TAUZIN. Doesn't that raise a red flag to you, that an essential part of your agreement has to be kept secret, otherwise the accountants can't treat it a certain way for revenue purposes? Doesn't that tell you this is a bad deal, I better not touch this thing?

Ms. ARMSTRONG. It doesn't raise any flag at all.

Chairman TAUZIN. None at all?

Ms. ARMSTRONG. Not for Global Crossing. We weren't keeping anything secret. This was—

Chairman TAUZIN. Was this the biggest deal you did?

Ms. ARMSTRONG. I'm sorry?

Chairman TAUZIN. Wasn't this the biggest deal that you didn't, the one with Qwest? Wasn't it \$300 million?

Ms. ARMSTRONG. No, no.

Chairman TAUZIN. How much was it?

Ms. ARMSTRONG. I can't remember exactly how much it was. It certainly was one of the bigger deals I worked on, yes.

Chairman TAUZIN. It was pretty big.

Ms. ARMSTRONG. Yes, very big.

Chairman TAUZIN. Yes. And it would not have been connected, in your mind, in your opinion by your company without this guar-

antee which the party who gave you the guarantee is not denying you got it. How could you recommend to the company that they do a deal where you had to count on Ms. Susan Chase 1 day saying yeah, that was the deal or no, that wasn't the deal?

Ms. ARMSTRONG. That was not a decision that I made. It was not my decision whether or not we did the deal based on these oral assurances. In fact, my advice to the company was that we are taking a real business risk by relying on these oral assurances because it would be very difficult, if we went to court on this, we probably wouldn't win.

Chairman TAUZIN. Yes. But you don't think that it raised ethical concerns or legal concerns about whether or not the other company was dealing fairly and ethically with you?

Ms. ARMSTRONG. As far as, you mean ethical concerns within Qwest?

Chairman TAUZIN. Yes. You were dealing with a company that was saying I know you're going to have consent, but we can't put it in the contract because our accountants won't let us. That didn't raise any ethical or legal issues?

Ms. ARMSTRONG. I wasn't representing Qwest. It may well have raised concerns within Qwest. What I'm saying is it didn't raise concerns within Global Crossing.

Chairman TAUZIN. Thank you, Mr. Chairman.

Mr. GREENWOOD. The Chair thanks the gentleman and recognizes the gentlelady from Colorado, Ms. DeGette for 10 minutes.

Ms. DEGETTE. Thank you, Mr. Chairman. I think this is the essential issue, so if you folks could all go to the memo that we just handed out. It's not in the notebook. The chairman was asking about it a minute ago. At the top of the three page document it says "From Stout, Kimberly sent April 23." Does everybody have that document?

Because I think this document more than anything we've looked at, while also having some amusing jokes by the parties, it says what the essence of the issue is here, so I'd like you all to follow with me. Take a look at page 2 of this. It's an e-mail from Ms. Smiley to Ms. Chase and everyone sitting here just about has received a copy of it and it says "Robin and Jackie, as Susan explained, we need to execute acceptance letters for the capacity that Qwest purchased from Global Crossing during first quarter 2001." And then it goes on.

Then the next e-mail which is dated April 23, 3 days later it's from Ms. Wright to Ms. Smiley and again everyone had it, this is it. "Can you give us some clarification of what you require? In actuality, you have prepaid circuits, but have not designated the end points. Since for our revenue recognition that would be Global Crossing, we are not required to actually activate the circuits. There is nothing to formally accept until we have received the order from you. Do you want to say that you are accepting 20 circuits from Tokyo to Seattle and 80 circuits from Tokyo to Hong Kong? If that's the case, I need to check with Legal since we have not actually delivered them."

Now let me start with Ms. Wright. Ms. Wright, you knew when you wrote this e-mail that the way Qwest did its revenue was it

amortized it over time and so you did not actually have to have the end points designated because of your accounting principles, right?

Ms. WRIGHT. For our accounting principles, we did not have to activate circuits prior to the end of the quarter.

Ms. DEGETTE. Right, but you also knew that Qwest's accounting office did require it because they were booking the revenue quarter by quarter, not amortizing it over time, right?

Ms. WRIGHT. I did not know the reason why they required something different. As I mentioned, we've had many contracts with all kinds of different requirements. I knew it was different, but I didn't know why.

Ms. DEGETTE. And you also knew that they had to actually book a deal, they had to have a sale of actual goods. They had to have the end points, in other words, right? Did you know that?

Ms. WRIGHT. Of their sale to us?

Ms. DEGETTE. Right.

Ms. WRIGHT. Correct, I did know that.

Ms. DEGETTE. Let me ask you, Ms. Chase, from Qwest's perspective, when you did these deals, you knew that Global Crossing did not require the end points to be designated from its accounting perspective, but you guys had to have an actual sale, right?

Ms. CHASE. What we were selling to Global Crossing, we had a set process in which we needed to follow in how we sold our services.

Ms. DEGETTE. Right, and if it didn't have end points, then you couldn't close the deal by the end of that quarter, right?

Ms. CHASE. Correct.

Ms. DEGETTE. So this is what this memo, this series of memos is about, isn't it, Ms. Chase?

Ms. CHASE. No, it's not. This is about the assets that we purchased, that Qwest purchased in Asia. And it was after the first quarter transaction, one of our finance guys came back and said that we needed a document showing that we accepted service in Asia.

Ms. DEGETTE. Right, exactly.

Ms. CHASE. That was the Asia piece, not what we sold to Global Crossing, it's what we bought.

Ms. DEGETTE. Right, okay.

Ms. CHASE. It doesn't have anything to do with revenue recognition.

Ms. DEGETTE. Now Ms. Smiley, there's another e-mail sent also on April 23 from you to Ms. Wright and others and you say "I understand the issue with the end points. I really do not want to lose the flexibility in that we can designate which end points we want when we choose to activate them. So I'm checking internally to see how we should handle."

Right? That's what you said.

Ms. SMILEY. Yes ma'am.

Ms. DEGETTE. And then that's when Ms. Wright writes back and she says that she would be happy to help you, so long as and here's the first of the jokes, "you don't go to jail or something."

Now what you were recognizing there, Ms. Wright, is you understood that there could be a potential problem if you both gave

Qwest the flexibility they wanted, but you didn't have any kind of designated end points, right?

Ms. WRIGHT. No, that's not true.

Ms. DEGETTE. Well, tell me then.

Ms. WRIGHT. Okay, they sent us a request to activate circuits. Let me back up. Initially, what we normally would do would be activate from a cable station to a cable station so that we have a place holder for that customer for those circuits on that undersea portion only.

Ms. DEGETTE. I understand.

Ms. WRIGHT. So that when they tell us where they want the end points, then we activate them for them Ms. DEGETTE. Right.

Ms. WRIGHT. I'm just trying to clarify what it is that she's asking us to do and I wanted to check with legal on it once I——

Ms. DEGETTE. Did you ever get it resolved?

Ms. WRIGHT. No, as far as I know, this was the end of this.

Ms. DEGETTE. Okay, if you can turn quickly to Tab 57, here's some more e-mails and the first thing, page 3 of it, there's a whole series of e-mails. It looks to me like everybody was copied on all of these e-mails and on page 3 a gentleman named Martin A. Ritt, an attorney from Perkins Coohy says "Qwest accounting people are focused on the issue of whether the repurchase price should be used based on fair market value as Qwest prefers versus what was paid for the item as GC prefers. I think that Robin and Susan Chase need to close the loop on this question."

Ms. Armstrong, were you aware of those conflicting policies between Qwest and Global Crossing?

Ms. ARMSTRONG. I was aware of it when I got this e-mail. I understand the issue, yes.

Ms. DEGETTE. Okay, and so my question is how did you ever resolve it with respect to the transaction in this e-mail? Did you ever resolve how it should be determined?

Ms. ARMSTRONG. Yes, the agreement, we reluctantly conceded and agreed that the agreements would say fair market value.

Ms. DEGETTE. And in fact, it did say fair market value?

Ms. ARMSTRONG. It did say fair market value, yes.

Ms. DEGETTE. Here's an e-mail on the first page of Tab 56 which is from Ms. Wright to Ms. Chase and others and it says "Kym and Susan, this is an issue that keeps raising its ugly head. As we've agreed, because we're both being delivered what we probably don't want in the long term, we've agreed on both sides that the repurchase price is the actual amount paid, not the fair market value. You know the issue. We are taking capacity in order to help with revenue recognition issues."

Now I want to ask you, Ms. Wright, what is the business purpose of this deal? You're taking—you're being delivered what you don't want in the long term. You've agreed that the repurchase price is the actual amount paid and you know that you're taking capacity in order to help with revenue recognition issues.

Ms. WRIGHT. As we discussed, Qwest required to have the circuits activated prior to the end of the quarter. There were cases that we were waiting and sometimes it's a matter of a few weeks for them to have the locations that we wanted, the circuits extended to, ready for service, and in a lot of cases we were waiting

for our own customers to tell us where they wanted their end points. So we wanted the flexibility to be able to port that.

Ms. DEGETTE. So what you're saying is you closed the deal so that Qwest could recognize the revenue by the end of the quarter, when in fact, the final ports weren't determined yet? Right?

Ms. WRIGHT. We closed the deal because—

Ms. DEGETTE. No, is that what happened?

Ms. WRIGHT. No, that's not what happened. We closed the deal with the understanding that we had the flexibility to move the circuits where we wanted them to be ultimately.

Ms. DEGETTE. Okay, and so in that case, you took circuits—I'm sorry, in that case you took capacity that you didn't need because you wanted to close the deal before the quarter was out?

Ms. WRIGHT. We took capacity that they had available with the understanding that we could move it to the locations that we wanted as soon as it was available.

Ms. DEGETTE. And was that in the written agreement, the understanding that you could move it to the locations as it was available?

Ms. WRIGHT. As Ms. Armstrong has outlined, it required their consent.

Chairman TAUZIN. Mr. Chairman?

Ms. DEGETTE. I'd be happy to yield.

Chairman TAUZIN. I want to ask if the gentlelady could have an additional 2 minutes and I ask her to yield quickly?

Ms. DEGETTE. I'd be glad to.

Chairman TAUZIN. I thank the gentlelady. I want to go to Ms. Chase real quick. Now you just heard at Tab 65 again, you just heard the testimony of Ms. Wright regarding this e-mail. You responded to it. And you said as follows: "I agree with your comments below. It is our intention to keep you whole." That sounds like you're agreeing to what Ms. Armstrong has testified, that you did, in fact, have an oral agreement to keep them whole.

Am I wrong? What does this mean?

Ms. CHASE. Congressman Tauzin, my comment here on—that I agree with your comments below was that I agreed I thought we should be able to give them what we refer to as purchase price versus fair market value. So I was very surprised that we were reverting our agreement to fair market value versus purchase price.

So the issue here was that I wanted to try to help Robin and Global Crossing get what they wanted which was purchase price. So I followed back to see what we had done before and was asking had we done this before for you to try to figure out why we weren't doing it in this particular quarter.

Chairman TAUZIN. Isn't purchase price, however, the issue of purchase price or fair market price connected to the question of portability as to whether it's revenue recognizable?

Ms. CHASE. I don't know. I don't know. I'm not in that area.

Chairman TAUZIN. How could you have a new agreement if you're going back to the old agreement which had a purchase price in it?

Ms. CHASE. I'm sorry, I don't understand.

Chairman TAUZIN. Your oral agreement had a purchase price in it.

Ms. CHASE. Yes.

Chairman TAUZIN. Now you're saying we had to go to a new agreement that says we're not going to go by purchase price. We're going to go by fair market value.

Ms. CHASE. Right.

Chairman TAUZIN. How could you have that without an oral agreement to do that?

Ms. CHASE. Well, no, our company, Qwest, as we go through the process with our pricing offer management group, our accountants, our attorneys, they review all of the pieces of the agreement. At this point, I guess it was toward the end of the quarter they came back and stated that we needed to have fair market value.

Chairman TAUZIN. Why did you ask did we put it in a side letter?

Ms. CHASE. Because I was trying to figure out if we had done in a prior agreement which would be in a prior quarter.

Chairman TAUZIN. The point was it wasn't in—the purchase price issue was not in the original agreement and so you were saying did we put it in a side letter? Is there some way we agreed to do this? Is that what you're saying?

Ms. CHASE. No, not at all. That's not what I'm saying.

Chairman TAUZIN. Tell me, please.

Ms. CHASE. It turned out that in a prior agreement that we had with Global Crossing that we had purchase price, that upon mutual consent, if Qwest agreed to allow Global Crossing to trade a circuit in, they would get the purchase price that they paid for it.

Chairman TAUZIN. I accept that. But you're basically saying, I agree with your comments, and it is our intention to keep you whole. Isn't that the guarantee? Isn't that the guarantee that you're going to give your consent to this new pricing arrangement?

Ms. CHASE. Not at all.

Chairman TAUZIN. Thank you, Mr. Chairman.

Ms. DEGETTE. Reclaiming my time. Let me just ask, listening to what Ms. Wright just told me, Ms. Chase, would you disagree with the statement that the reason the contract was structured the way it was, was so that Qwest could recognize the revenue because there was such pressure to book this by the end of the quarter even though they knew that they were both negotiating for something they didn't want and that would be changed later.

Ms. CHASE. I don't agree with Qwest not needing what they were purchasing.

Ms. DEGETTE. So you don't agree with what Ms. Wright told you in her e-mail. In fact, actually, thank you, Edith, the e-mail right above that from you dated June 25 says "I agree with your comments below." So you did agree with Ms. Wright.

Ms. CHASE. I agreed that our intention, as I said here, was to keep you whole, not if you were to change in your network upon mutual consent that it was our company's intention to put you in a position where you'd have to pay more money, but again, I'm not in the position to make that type of decision. So I did not make a commitment that we would do something one way or another because we have certain processes within our company and agreements that need to be made within Qwest that go into the actual contract itself.

Ms. DEGETTE. So it's your testimony that in that deal, both sides got what they wanted and there was no need to modify it later on? Is that your testimony today?

Ms. CHASE. It was what was contracted.

Ms. DEGETTE. Thank you, Mr. Chairman. I yield back.

Mr. GREENWOOD. The gentleman from Michigan is recognized for 10 minutes.

Mr. STUPAK. Thank you, Mr. Chairman. Now Mr. Floyd, I want to pick up a little bit where Mr. Deutsch left off. I'm looking over on Tab 67 here in your book. And it's an e-mail here from Susan Chase and it goes on to say that "the fair market value for the Japan/U.S. capacity will be from \$16 to \$20 million although that cannot be stated."

Then she goes on to say "the bottom line FLAG is willing to trust us. It would be great if you could call Ed McCormack and assure him that we have no trust issues."

Did Ms. Chase make that statement to you?

Mr. FLOYD. Which statement specifically?

Mr. STUPAK. That "the bottom line FLAG is willing to trust us. It would be great if you could call Ed McCormack to assure him that we have no trust issues." Did Ms. Chase make that statement to you?

Mr. FLOYD. No. I believe she's talking to Greg Casey.

Mr. STUPAK. Okay. All right. Who's Ed McCormack then?

Mr. FLOYD. Ed McCormack is FLAG's COO, Chief Operating Officer.

Mr. STUPAK. Of FLAG?

Mr. FLOYD. Right Mr. STUPAK. Do you know if Greg Casey ever called him about a trust issue?

Mr. FLOYD. Most definitely. Most definitely. You're asking as far as this e-mail.

Mr. STUPAK. Sure.

Mr. FLOYD. As far as she say me to call Ed McCormack, whatever, I took it out of context.

Mr. STUPAK. Okay. Well, what were you looking for in this e-mail then, on behalf of your client? What was FLAG looking for?

Mr. FLOYD. FLAG was looking for 16 STM-1s on the Pacific.

Mr. STUPAK. And it hadn't been completed yet, had it?

Mr. FLOYD. The Japan/U.S. system had not been completed. We were looking for 16 STM-1s on the Pacific, period.

Mr. STUPAK. And the other option would have been to build your own, correct?

Mr. FLOYD. A little different cost position on that. Billions versus millions.

Mr. STUPAK. Sure. So it would have been better to deal with someone like Qwest who had this route.

Mr. FLOYD. At that time looking for a carrier who had capacity on one of the available systems or one of the new systems, yes.

Mr. STUPAK. All right, and in late February or early May, did you have a meeting in New York with Kym Smiley and several other representatives of Qwest?

Mr. FLOYD. Yes, we did.

Mr. STUPAK. And was Susan Chase on the phone during the meeting?



Mr. FLOYD. At times, yes.

Mr. STUPAK. And did Qwest tell you then that for \$20 million they'd sell you 10 STM on their PC-1, but trade them 6 to 9 months later for 16 STMs on the Japan-U.S. route?

Mr. FLOYD. Yes.

Mr. STUPAK. And actually, would you get more later, in other words, for your money? Would you get more access later on these lines?

Mr. FLOYD. The 16 later, yes. The market value—

Mr. STUPAK. Was dropping, right?

Mr. FLOYD. No, no, no. The market value at the time that we bought them was \$20 million for 16.

Mr. STUPAK. Okay.

Mr. FLOYD. So what we were willing to pay was \$20 million for 16 STM-1s.

Mr. STUPAK. Did you anticipate getting more later with the price?

Mr. FLOYD. No.

Mr. STUPAK. No?

Mr. FLOYD. No. 16, that was what we were contracting for.

Mr. STUPAK. All right and that's what you wanted at that time was 16?

Mr. FLOYD. Exactly.

Mr. STUPAK. Was there an ability to port from one route to another in the contract?

Mr. FLOYD. No, nothing specific in the contract.

Mr. STUPAK. Why wasn't then that ability to port from one to the other where Ms. Chase was talking about porting from one point to the other? Why wasn't that in the contract?

Mr. FLOYD. We were trying to put in the contract, actually it talked about a side agreement and they had asked us we not put it in writing to do it on trust.

Mr. STUPAK. Who asked you not to put in writing, but put it based on trust?

Mr. FLOYD. I'm not sure who it was, but the Qwest team. There was a lot of negotiations going back and forth with all of us.

Mr. STUPAK. Was this negotiation the meeting in New York we're talking about?

Mr. FLOYD. Not that portion of it, no. The oral came in later, prior to the end of June.

Mr. STUPAK. Okay. So you were still willing to pay \$20 million even though the agreement wasn't going to be in writing, was based upon this trust agreement?

Mr. FLOYD. Yes, it was by trust.

Mr. STUPAK. All right. Who made the representations to you about this trust? Here you're going to spend \$20 million based upon trust. Who had made that representation to you?

Mr. FLOYD. We had, in the conversations that we'd had, I've known the parties for a while. I was willing to do trust, but I couldn't commit my company to that as well, that it had to come from a higher authority per se. And even with the group that I was dealing with, we were inquiring from a higher authority within Qwest. And they were the ones that had agreed that trust was in-

deed how we wanted to proceed with this and we would get the capacity we were looking for.

Mr. STUPAK. So the final say on the trust deal is between Mr. McCormack and Greg Casey?

Mr. FLOYD. Yes.

Mr. STUPAK. After this agreement on trust, did you get your PC-1 that you were looking for?

Mr. FLOYD. No. Still waiting for it to be turned up.

Mr. STUPAK. When did you have this agreement on trust and you're still waiting for it to be turned on, how much time has elapsed now?

Mr. FLOYD. July 2001.

Mr. STUPAK. So it's been 15 months. Have you gone back to Qwest and tried to get this thing turned on so you can start doing business?

Mr. FLOYD. Most definitely.

Mr. STUPAK. What happened when you went back to Qwest?

Mr. FLOYD. These were issues on both parts, as far as FLAG changing some of the endpoints. It was very long and drawn out. We actually had stopped that PC-1 at one point and asked that they stop activating that and turn it all over to Japan/U.S. as that was now in service.

Mr. STUPAK. At any time in these last 15 months did anyone say well, we understand but now some issues have come up and it's not in writing?

Mr. FLOYD. Issues have come up because it wasn't in writing, yes.

Mr. STUPAK. So that trust agreement didn't hold up?

Mr. FLOYD. Exactly.

Mr. STUPAK. Okay. Ms. Smiley, were you involved in these negotiations or side agreement, we'll say?

Ms. SMILEY. I was involved in parts of the negotiation. I was in and out of the FLAG deal while I was simultaneously working a couple other transactions.

Mr. STUPAK. Were you in during this discussion about trust us, we'll get this thing turned on for \$20 million?

Ms. SMILEY. That's not my recollection of the events. I recall that we had specific discussions about FLAG's desire to have Japan/U.S. as opposed to PC-1 when it became available. Our lawyer, as well as our business person, Dan Nimps, was also in the discussions and our lawyer made it very clear that there was a possibility that we may not be able to sell Japan/U.S. on an IRU basis. So therefore they would not be able to trade out PC-1 for Japan U.S.

Mr. STUPAK. Did you ever tell Mr. Floyd or anyone else from FLAG that they misunderstood the verbal agreement that they had between Qwest and FLAG on this U.S./Japan route?

Ms. SMILEY. I do not believe that there was a verbal agreement and yes, Mr. Floyd and I have had conversations back—an audit letter was requested.

Mr. STUPAK. Wait a minute. You didn't understand there was this verbal agreement?

Ms. SMILEY. I don't believe, at least in the conversations I participated in, there was not a verbal agreement that would allow—

Mr. STUPAK. Did you learn there was subsequently a verbal agreement?

Ms. SMILEY. No. I understand it is FLAG's position that there was a verbal agreement. I have no personal knowledge of a verbal agreement.

Mr. STUPAK. And my question before I interrupted you, did you ever tell anyone from FLAG or Mr. Floyd that they misunderstood a verbal agreement?

Ms. SMILEY. Yes, when he was filling out the information for the audit letter for Arthur Andersen, I told him I disagreed.

Mr. STUPAK. If you didn't know there was a verbal agreement how could you tell him there was a misunderstanding about the verbal agreement?

Ms. SMILEY. Because he told us that his concern was that there was this oral agreement and that he needed to disclose it on the audit letter and it was my position that there wasn't an oral agreement.

Mr. STUPAK. That it was not an oral agreement?

Ms. SMILEY. That it was not an oral agreement.

Mr. STUPAK. All right, do you have any personal knowledge of any oral agreements in your capacity there at Qwest?

Ms. SMILEY. I am not aware of conversations where there—I'm sorry, where there were oral agreements.

Mr. STUPAK. Someone from FLAG told you about their oral agreement and you said that didn't count because you don't recognize that.

Are there any other oral agreements that you've been made aware of that you don't recognize now?

Ms. SMILEY. I have been told that Global Crossing thought we had an oral agreement.

Mr. STUPAK. Okay, FLAG, Global Crossing, anyone else?

Ms. SMILEY. Cable and Wireless.

Mr. STUPAK. Cable and Wireless, anyone else?

Ms. SMILEY. That's all to my knowledge.

Mr. STUPAK. And only one verbal agreement with each one of these companies, FLAG, Global Crossing and Cable and Wireless or were there numerous oral agreements with each one of these?

Ms. SMILEY. I don't know sir, respectfully, I didn't participate in any oral agreements that would vary the contract terms.

Mr. STUPAK. If you didn't, who did? Aren't you the chief negotiating person for these agreements?

Ms. SMILEY. I was the negotiator for FLAG and Global Crossing and Cable and Wireless. Again, I wasn't involved in every conversation for every deal. I did not negotiate every term and condition of every deal. That just wasn't humanly possible.

Mr. STUPAK. So as former Director of Strategic Negotiations, Qwest Communications International, you weren't aware of these oral agreements until you were told?

Ms. SMILEY. I was not.

Mr. STUPAK. Ms. Wright, would you agree with that? Were you aware of these oral agreements?

Ms. WRIGHT. I was aware of an oral agreement, yes, between Qwest and Global Crossing.

Mr. STUPAK. And how about Cable and Wireless?

Were you aware of oral agreement there?

Ms. WRIGHT. Global Crossing didn't have any oral agreement with C&W. I don't know about—

Mr. STUPAK. I realize that. It's just the coziness of all of this.

Ms. WRIGHT. I was not aware.

Mr. STUPAK. All right. I brought up an e-mail of yours earlier in my opening statement, so I think it's only fair you should comment on it. It's under Tab 24 and it's on the bottom of the page where it says "Robin Wright wrote Susan told me Greg is ready to write a check for \$75 million this quarter for capacity on SAC. What the hell are we going to buy?"

What kind of response did you get on that? Or what did you buy?

Ms. WRIGHT. I'm not positive what we did buy in the third quarter of 2001.

Mr. STUPAK. What was your concern here, I guess is what I'm trying to ask. I'll let you explain it since I've highlighted it in my statement.

Ms. WRIGHT. My concern was that over time and again, this is getting into the third quarter where in my view we were having to dig deeper and deeper to find things to buy.

Mr. STUPAK. Right.

Ms. WRIGHT. And I was concerned that it would be great to have Qwest buy more capacity. There is no bad sale, but I didn't know if we could come up—I knew that they would not do a deal unless it was reciprocal and I was concerned that we would not be able to find \$75 million worth of things to buy.

Mr. STUPAK. And that's to meet your revenue expectations for the quarter?

Ms. WRIGHT. The \$75 million came from Susan, so and I don't know where we were at at that point in the quarter.

Mr. STUPAK. Thank you. Thank you, Mr. Chairman.

Mr. GREENWOOD. The Chair thanks the gentleman and recognizes himself for 10 minutes and we're going to back to this tedious business with you again, Mr. Floyd and I think this demonstrates the detailed the section that we have to go through to try to understand how these transactions occurred and American investors lost \$54 billion at Global Crossing alone.

Now let's go back to whether or not you believed that you had a verbal agreement that FLAG could port its capacity when it was completed. Did you believe you had that verbal agreement?

Mr. FLOYD. Yes.

Mr. GREENWOOD. And from whom did you get that verbal agreement?

Mr. FLOYD. Ultimately Greg Casey to Ed McCormack and from the group that we negotiating the deal.

Mr. GREENWOOD. You used the word ultimately, did you discuss that with others at Qwest?

Mr. FLOYD. Yes. It would have been Kym, Susan, the negotiating team.

Mr. GREENWOOD. They told you verbally that you would have this portability opportunity?

Mr. FLOYD. Collectively, yes; individually, I can't say which one spoke the words, but it was a—the two companies were doing a deal.

Mr. GREENWOOD. Were you sitting at a table? Were you on the telephone?

Mr. FLOYD. On the oral side, no. So it had not gotten to that position at that point as far as—

Mr. GREENWOOD. Now you've said that you had an oral agreement. You said that ultimately it came from Mr. Casey, but you said prior to that it came collectively. Is this something you heard? These are words spoken into your ear on the telephone?

Mr. FLOYD. The words were spoken in my ear during a meeting in New York.

Mr. GREENWOOD. Those words were spoken by whom?

Mr. FLOYD. It would have been Susan Moorehead. It would have been Shawna Lee. Kym was there. Tanna Sumard, the attorney and Dan Nimps, their revenue analyst.

Mr. GREENWOOD. Is that your recollection, Ms. Smiley, that you were there?

Ms. SMILEY. Yes sir, I was in New York.

Mr. GREENWOOD. And you were aware that there was a verbal commitment made at that meeting?

Ms. SMILEY. I dispute the fact that there was a verbal agreement there. The staff has documents from Mr. Floyd himself which show that there was a dispute as to whether Qwest can IRU Japan/U.S. and we made very clear that we may not be able to offer Japan/U.S. as an IRU and if we could not offer Japan/U.S. as an IRU, then FLAG would not be able to trade in PC-1 for Japan/U.S.

The upgrade provision in the contract clearly specifies that must be on similar terms and conditions. And so it was very important to Qwest that if Qwest could not offer Japan/U.S. as an IRU, that FLAG could not sell back PC-1 and trade in for Japan/U.S. and that was a point of discussion in New York. We were very clear. We did not know whether we'd be able to sell it as an IRU. There are documents the staff has that reflects that and to date Qwest has not been able to sell Japan/U.S. as an IRU.

Mr. GREENWOOD. Okay, Ms. Chase, do you still have Tab 67 in front of you? Do you have it?

Ms. CHASE. Yes, I do.

Mr. GREENWOOD. It says, "for Qwest to start recognizing revenue on the \$20 million IRU, we are planning to sell FLAG 10 STM-1s on PC-1. FLAG will then port over to 16 STM-1s on Japan/U.S. within 2 or 3 months once Japan/U.S. is turned up. Qwest does not have an issue with this. Bottom line is FLAG is willing to trust us."

Would you interpret that for us?

Ms. CHASE. Sure. We were still in the process of negotiating our arrangement. Initially, FLAG had intended to lease these services, however, we were unable to do that, so we found a way in which we could sell the PC-1 capacity as an IRU. They prefer to be on Japan/U.S., so we tried to find a way upon which we could potentially get them to Japan/U.S. so we looked at an option that would be, if upon mutual consent, we would allow them to use the language in the agreement to go to Japan/U.S. which is where they ultimately wanted to be in the end and I was stuck and sent a note to Greg to see if he could have a discussion with Mr. McCormack about what they wanted to do—

Mr. GREENWOOD. When you said, "bottom line is FLAG is willing to trust us," what does that mean?

Ms. CHASE. FLAG believed that Japan/U.S. would be able to become an IRU. They believed it to the extent that they, FLAG, sent us a note stating that they would help us figure out how we could make Japan/U.S. as an IRU because of the fact that we didn't agree that we could ever sell Japan/U.S. as an IRU. So I was stuck, didn't know how we would be pursuing this and basically escalated it to my senior vice president and then ultimately to Greg who's our executive vice president that talked to Ed about what they wanted to do. That's the point. I didn't guarantee, we didn't give them a verbal commitment that we would do anything one way or the other. We hadn't even gotten to the agreements yet, but wanted to give Greg an opportunity to talk to Ed McCormack and send them this note because this is where we were in the transaction.

Mr. GREENWOOD. Let me turn to Ms. Smiley. Do you believe there was an implicit understanding in all negotiations that FLAG would be allowed to port based on the past practice and business relationships?

Ms. SMILEY. That's hard to answer because I know that in the negotiations I participated in, there was not an express hey, don't worry about mutual consent. That was never an issue. It was like we need to have mutual consent. This is the language we required.

None of us had any reasonable expectation that we wouldn't give our reasonable consent, so if by that you mean implicit, then yes. Because sitting here today and sitting there when we negotiated those transactions, we had no reason to believe that we would not give them mutual consent. So in my opinion, I don't understand why people are saying there's this side deal because I didn't see a need for a side deal. You've got this language that says upon mutual consent. You've got parties that work together and there was no reasonable basis to believe that we wouldn't give mutual consent.

Mr. GREENWOOD. Did you tell FLAG that you would port or did you explain that you might not?

Ms. SMILEY. We explained that the contract terms of the contract, there are certain requirements that you have to meet in order to exchange capacity and that's, those are the discussions that I had. Ms. Chase wasn't in New York with us when Tanna Samard, our lawyer, made very clear that there was a possibility that we could sell Japan/U.S. on an IRU basis. And so she wasn't there when we said we can't sell this.

Mr. GREENWOOD. Let me turn to Mr. Floyd. FLAG received an audit letter from Andersen, asking FLAG to set forth all agreements between the companies including all side letters and verbal assurances.

If you turn to Tab 69, you raise the auditor's letter to both Kym Smiley and Susan Chase. And you ask that an accounting person be on the call because the audit letter, "may have a direct impact on your previous quarters' revenue recognition."

What did you mean by that?

Mr. FLOYD. The oral agreement was unusual and the fact that we were getting 10 STM-1s today, we'd bought 16. It was going to be a delivery of 10 and 6, for a total of 16. There was an issue. I

don't know what it was. The idea was as a courtesy, we do have this letter. We do have to fill it out and be honest with it as far as exactly what the deal was and we are going to disclose it.

Mr. GREENWOOD. Ms. Smiley and Ms. Chase, what did you understand these comments to mean?

Ms. CHASE. Which page are we referencing?

Mr. GREENWOOD. This is Tab 69?

Ms. SMILEY. It's my understanding that Shawna Lee had a conversation with Ken Floyd after which she sent us an e-mail that explained Ken's concern and Mr. Floyd's concern was about this alleged oral representation that we would trade out PC-1 capacity for Japan/U.S. And that's my understanding of what his concern was.

Mr. GREENWOOD. Turn to Tab 70. There's an e-mail sent to you, Ms. Smiley, and copied to Ms. Chase. It raises several questions, concerns and questions regarding FLAG and their response to the audit letter. It says, this is to you from Shawna Lee. It says, "I spoke with Ken Floyd this evening regarding an audit letter from Arthur Andersen. Concern, possible exposure on both parties based on 'verbal/oral agreements'. Question: how should FLAG handle responding to the requests to list the verbal oral agreements between the companies?"

What's your interpretation of that?

Ms. SMILEY. It's my understanding that Shawna Lee is recapping the issues that she discovered from Ken Floyd and this is her repeating what Ken Floyd's concerns were. That's my understanding.

Mr. GREENWOOD. What do you think "possible exposure on both parties" means? What kind of exposure?

Ms. SMILEY. I would have to assume revenue recognition issues, but that's just my assumption.

Mr. GREENWOOD. If there was no oral agreement, then why was the concern expressed?

Ms. SMILEY. Again, you'd have to ask Shawna Lee, but I believe that she is repeating what he said and she's not talking on behalf of Qwest.

Mr. GREENWOOD. Mr. Floyd, will you turn to Tab 73, please?

It's the audit letter and it says, "for the contract dated 27 June 2001, there is a verbal agreement and that Qwest will convert the capacity purchased into 16 STM-1s on the Japan/U.S. cable system when available."

Can you explain that?

Mr. FLOYD. This is for point 2?

Mr. GREENWOOD. Yes.

Mr. FLOYD. Yes. The verbal agreement, I guess I'll start from the beginning. The value for an STM-16 in June was \$20 million and that's what we wanted in the end. So the deal was such that Qwest could not give us 16 at that point in time. We only could give you 10, but we will give you the extra 6 later and that was from an accounting issue that they had with the value of the PC-1 capacity that they had in inventory at the time. FLAG agreed to take the 6 later and Japan/U.S. because the cost position was better on that system. And what this is saying and outlining very short term is that the verbal agreement with the contract was that we would be able to get 16 STM-1s on Japan/U.S. when it was available.

It's a system, the Japan/U.S. system was being built. It had been delayed. We weren't sure when it was going to be in place. There was also a stipulation on the owners of that cable system that they could not resell it to others until I think it was 75 or 80 percent of the system had been sold. So that's the question mark as far as when it was. Since then, we have bought IRUs on Japan/U.S. from other carriers because we needed to have that specific capacity and we couldn't wait any longer for it to be delivered.

Mr. GREENWOOD. I suspect that anyone watching this hearing at home on C-SPAN has long ago gone to a soap opera because this is so tedious, but the bottom line of this hearing all day long has been that this committee has serious concerns about the fact that the telecommunications companies in question were conducting transactions fundamentally, fundamentally in order to meet revenue numbers and that all of the rest of this and that those revenue numbers were being pursued to keep the stock price from inflating and that that information deceived the investors into believing that the companies had more real revenues based on real legitimate business practices than they actually had and that's why a lot of people kept throwing their money at these companies and that's how they lost it all.

Now I just want to ask each of you, as I conclude my questions for the day, did this occur to you at any time during any of these transactions, were you—did it not occur to you that the tortuous ways in which these transactions were constructed were, in fact, having the effect of falsifying the image of your companies that was presented to the investors?

Mr. Floyd?

Mr. FLOYD. If I look back at the small slices of reciprocal transactions that I did, it was one of those where FLAG was identifying a need first and then find another company out there that could actually come back and purchase something in return to offset the cash outlay and if it works, it works out great. For a small company like ours, just getting started, that's a nice way of doing it.

You look back now, I guess 2 years later, 3 years later, you can say the impact was steamrolling, not just Qwest and Global Crossing, I think it was the industry as a whole, and our expectations that industry as well. I think that's the part that failed.

Mr. GREENWOOD. Ms. Smiley?

Ms. SMILEY. With regard to the purchases that Qwest made, it was always my understanding that there were business cases for those. I wasn't personally responsible for those and it's just, I was told that we needed that capacity and my role was just negotiating the contract for the terms.

Mr. GREENWOOD. And in retrospect, what is your view?

Ms. SMILEY. In retrospect, it's really hard to say because I have been told that Qwest this desire to be a global player, that we wanted to be in Latin America, that we wanted to be in Asia, that we wanted to be in Europe. And so based on those representations the business case for these assets makes sense to me.

Mr. GREENWOOD. Still does?

Ms. SMILEY. It still does, but I have heard different things on well, is the market supporting this now? The market has completely changed. I'm not a financial person. I'm not a person that



can look at it and say we need this. I'm not a network person. All I know is that I was told there were needs for this capacity and here's the deal you need to negotiate and this is the deal you need to close.

On our cell side, I do know that the contracts were drafted so that we could get up front revenue recognition. I don't think that was a secret and I didn't think there was anything wrong with that. I was told if you followed these rules, you get up front revenue recognition treatment and the deals were structured that way because Qwest intended to book the revenue. I didn't have anything to do with what deals were booked in what quarter and how they're treated. That wasn't my role. My role was simply to negotiate the contract and then provide it to the other departments for approval and treatment.

Mr. GREENWOOD. Ms. Chase?

Ms. CHASE. I believe that the agreements that I was personally involved with were exciting to the point that we had an opportunity to be in other parts of the world. I think being a global provider is important and I was excited about being able to enter into new business relationships so I looked at the positive side and view that most of the transactions were very good transactions.

Mr. GREENWOOD. Ms. Wright?

Ms. WRIGHT. I believe the deals that we did with Qwest in the third quarter of 2000, the third quarter of 2000, the fourth quarter of 2000 and the first quarter of 2001 were good, sound deals based on customer requirements. And certainly some proactive buying for what we thought—where we thought the market was going.

In all honesty, I thought that as we went further we were getting more and more desperate to do the deals and I think in retrospect the people who thought these should be more conservative about buying were probably right. Having said that, however, I also wonder if the whole, the collapse of the whole market sort of—excuse me, is a bigger issue and I'm not sure anything would have overcome that.

Mr. GREENWOOD. How about the second quarter?

Ms. WRIGHT. The second quarter I didn't feel as good about.

Mr. GREENWOOD. Ms. Armstrong—well, why didn't you feel as good about it?

Ms. WRIGHT. I felt like we were pushing to buy capacity—I look at sort of a continuum of here's a firm customer requirement on one side and on the other side a future, almost speculation. We were moving down that continuum in the second quarter.

Mr. GREENWOOD. Sometimes I'm not sure anybody is still getting this. From the point of view of the investor, if your loved ones were investing in the company at this period of time would you have said yeah, keep investing and you wouldn't want to tell them, by the way, we're so desperate to meet our numbers that we're doing all these crazy swap deals, you would say it's still a good investment?

Ms. WRIGHT. I can tell you for myself, I lost a great deal of money on the stock. I thought the end of the first quarter I exercised my options because I was feeling so bullish about Global Crossing, so the situation changed drastically in 2001 and would I

have recommended it? Probably not in the second quarter, but it was not my call.

Mr. GREENWOOD. Right, but everyone else is recommending.

Ms. Armstrong?

Ms. ARMSTRONG. I don't think I'm really qualified to say whether the business decisions that were made were the right ones which was really the question I think you're asking. I think it's clear there were differing opinions within the company as to whether or not we should be doing these deals. But as far as transactions being a sham, I certainly—we worked very hard on these transactions. There was a lot to negotiate. I certainly didn't think the transactions were a sham. I don't think Robin did and I don't think Kym and Susan did. We were the ones who were sitting there until late in the night negotiating these deals and negotiating them hard on things like price as well as the legal terms because they were, as far as we were concerned, genuine deals.

I wouldn't have wasted my time if I didn't think they were.

Mr. GREENWOOD. Okay. Mr. Deutsch for 10 minutes.

Mr. DEUTSCH. Thank you, Mr. Chairman. Ms. Wright, what happened with FLAG is very similar to your experience with Qwest in 2001. Is that correct?

Ms. WRIGHT. That's correct.

Mr. DEUTSCH. You thought you had a deal in the first quarter that allowed Global to trade in its capacity at a later date. Is that correct?

Ms. WRIGHT. We thought we had a deal with Qwest that allowed us to trade in the capacity and trade it in at the price at which we purchased it.

Mr. DEUTSCH. If you can refer to Tab 49. In a March 28, 2001 e-mail from Susan Chase to Roger Hogan which states in part "that Global Crossing is buying \$60 million in U.S. Waves service with portability with additional \$45 million for European service with the ability to port to dark fiber," what was your understanding of the deal you had?

Ms. WRIGHT. I'm sure—we could hear the page number?

Mr. DEUTSCH. Tab 49 where Global Crossing is buying \$60 million in U.S. Waves services with portability with an additional \$45 million for European service with the ability to port to dark fiber. What was your understanding of the deal that you had?

Ms. WRIGHT. We had the ability to trade in that capacity for dark fiber. Actually my understanding was that anything that was purchased during that quarter was completely portable to any other service.

Mr. DEUTSCH. Ms. Chase, you wrote this e-mail and sent it to 16 people at Qwest including Matthew Scott, your Director of Finance. Did anyone object to your understanding as stated here?

Ms. CHASE. To which?

Mr. DEUTSCH. The portability issue.

Ms. CHASE. Portability. On what Qwest is buying or what we are selling?

Mr. DEUTSCH. What Qwest is buying and what you're selling.

Ms. CHASE. What we're selling. Our standard language has always been upon mutual consent, so the group of people that the

note was sent to was to show the company where we were in the negotiations.

Mr. DEUTSCH. Let me just ask the question again, did anyone object to this to the way it's written?

Ms. CHASE. Object to it? It was just—we just continued on the negotiations. We just kept going. It was going toward agreement.

Mr. DEUTSCH. I mean there's nothing in the e-mail about mutual consent.

I mean you're representing to us that there's mutual consent, but there's nothing about mutual consent in the e-mail.

Ms. CHASE. It's in the agreement.

Mr. DEUTSCH. Ms. Wright, what was your understanding?

Ms. WRIGHT. My understanding, now I don't know the specific timeframe here because the situation was fluid during the last week and the issue of mutual consent came up at the last possible minute, so I don't know if they had introduced that concept at that time, but at the beginning of the negotiations it was clear that we had complete and total portability.

Mr. DEUTSCH. What about at the end?

Ms. WRIGHT. At the end of the negotiations, we had I believe we had the language mutual consent while acting in good faith and we had again the oral assurance that they would honor that commitment.

Ms. DEGETTE. Will the gentleman yield?

Mr. DEUTSCH. Yes.

Ms. DEGETTE. Ms. Wright, would you have entered into these agreements without the oral understandings that you just talked about?

Ms. WRIGHT. No, I would not have and I was not authorized to approve this, so I went to David Walsh, explained the situation and told him that I felt like we had a long lasting relationship with Qwest and that they had ever intent to honor the portability.

Ms. DEGETTE. It wouldn't have made business sense for you to enter into these agreements without the side or oral agreements, would it have?

Ms. WRIGHT. Probably not.

Ms. DEGETTE. Thank you. I yield back. Thank you.

Mr. DEUTSCH. Ms. Armstrong, is it true that Global Crossing would sometimes take assets it didn't want so that Qwest could just recognize revenue?

Ms. ARMSTRONG. I don't really know the answer to that question.

Mr. DEUTSCH. If we look at Tab 54 which is a June 24, 2001 e-mail from you to Ms. Wright, Ms. Smiley and others at Qwest, you say that that and I'm quoting, "we are only acting in the capacity we are buying by 30th of June because this is Qwest's requirement. It would be unreasonable that in say 6 months' time when we activate what we actually need we suffer because of a falling price."

Ms. ARMSTRONG. Yes, this goes back to the portability issue. We intended that what we bought we would exchange for capacity under this portability assurance in the future and my concern here was at what price would that capacity be exchanged.

Mr. DEUTSCH. The next day, Ms. Wright, you sent an e-mail stating that "in our deals with Qwest any capacity to dark stock fiber that we may buy from them was to be activated in order for them

to get revenue recognition since many cases we buy a bucket of services, they just activate what they and we, in turn, have the right to port that what we want once we decided what we want.” We have copies, obviously, this is at Tab 55. Is that a correct understanding of your past deals with Qwest?

Ms. WRIGHT. That’s correct.

Mr. DEUTSCH. But in June, Qwest accountants were insisting these later tradeoffs be at fair market value which could result in losing money in the market when prices are falling and at that point is that correct?

Ms. WRIGHT. That’s correct, toward the end of the negotiations, they said that they were required to change the language and have it at fair market value rather than purchase price.

I had a severe objection to that because it was a change in the deal structure and subsequent to that I let Susan know that as far as I was concerned that was a deal stopper and we went a couple of different routes at this point. Jackie and Kym, I believe, negotiated the language that would change our contract to be fair market value to mirror their contract so the risk would be equal and let me just, if I could, take a second just to frame out what that risk would be. If you have a circuit that you bought for \$1 million from New York to Los Angeles and let’s say that we activated or they activated that circuit for us to be able to, according to their revenue recognition rules, where we wanted New York to San Francisco. If that price fell 10 percent then we were going to take that hit. However, mitigating that is typically if that one is going to fall 10 percent so is the other one. So I didn’t feel there was a huge risk, however, I didn’t feel comfortable in pursuing it, so I talked it over with my boss, David Walsh, and Susan suggested that Greg Casey give David Walsh a call so that they could have this gentleman’s agreement on the pricing because Susan had told us that that was their intent, to make us whole.

Mr. DEUTSCH. And again, about this so-called gentleman’s agreement, what was that price the gentleman’s agreement would be at?

Ms. WRIGHT. In the contract, I believe, were some negotiated prices, so we had agreed on the \$1 million or whatever.

Mr. DEUTSCH. The initial purchase price?

Ms. WRIGHT. I believe the contract did have some purchase prices in it.

Mr. DEUTSCH. Ms. Chase, would you agree with what Ms. Wright has just described?

Ms. CHASE. I agree that we had issues between the fair market value and purchase price. I wasn’t exactly—didn’t remember how we resolved that particular issue. I believe that I personally didn’t guarantee that we would provide portability, but I had no reason to believe that our company would ever deny it because at that period of time I hadn’t been involved in a transaction whereby we did deny it.

Mr. DEUTSCH. Let me ask just one last question to Ms. Chase and Ms. Smiley. I want to refer you to Tab 62 which is an e-mail dated September 19, 2001 from Matthew Scott to you and several other people. It refers to an effort by Global Crossing to trade in some capacity bought in the second quarter. After meeting with Arthur Andersen and Ms. Szeliga, Mr. Scott reports to you that “this

cannot be done with seriously jeopardizing all future IRU revenue recognition. All of this implied that it's a service and not an asset. This means we do not complete the earning process with the original sale and should not have booked any revenues. That pertains to all future IRU sales as they will never know if the earning process has been completed." Was this the first time you had heard this position?

Ms. SMILEY. I'm sorry, could you help us find this. I can't find where you're reading from.

Mr. DEUTSCH. I believe it's 62.

Ms. CHASE. 62? It's not 62.

Mr. DEUTSCH. It's 62.

Ms. SMILEY. What page?

Mr. DEUTSCH. Let me just check. Second page. "Met with Robin Szeliga." On top of page 2.

Ms. CHASE. I've never seen this before.

Mr. DEUTSCH. On the bottom of page 1 going up to page 2. Top of page 2, bottom of page 1.

Ms. SMILEY. Could you please repeat your question?

Mr. DEUTSCH. My question is this position is that there's obviously a question how they're treating the IRU sales, that it's no longer a—it's a service, not an asset and you would deal with it differently from an accounting perspective.

Was this the first time that you've heard this position? Was this irrelevant to how you were treating it?

Ms. SMILEY. I guess I really don't understand your question. I think what he's explaining here is that you've got your inventory and these are the different things that you have to have with regard to buy-backs and these are the issues that they've identified with regard to buy-backs. And they're saying that any sales of PT&E should be structured as an operating lease and not an asset sale.

So I apologize, I just don't understand your question.

Mr. DEUTSCH. You don't think this is a change in position in terms of how they're treating the sale, the contracts?

Ms. SMILEY. This is concerning a buy-back of capacity of original capacity that we sold. We are requesting on, I believe, Global Crossing's behalf to repurchase some of the capacity pursuant to the terms of the original contract and I believe here what Matthew Scott is saying is there's some issues with that. I don't know, I know we had changes in accounting at different points in time. I don't know whether this is a new change or if this just tightening up of existing procedures, so again, I just don't really know how to answer your question.

Mr. DEUTSCH. But you're negotiating contracts without knowing how they're treating this capacity?

Ms. SMILEY. How Qwest chooses to account for it is not my issue. I take what the sales team tells me and they say we want you to negotiate a contract for the purchase of X capacity, say for example, PC-1 from Global Crossing and then the sale of domestic capacity. We negotiate those. There are a whole team of people, price and upper management, legal. If there are issues that we believe may raise accounting issues, we'll send those to the accountants and ask their advice on it. After the deal is signed, the contracts

are turned over to accounting and they make the call as to how it's treated.

The intent is when we sell IRUs to work within the parameters so they can be booked up front. Are they always booked up front? I don't know the answer to that.

Mr. DEUTSCH. On No. 2 on top of the second page of this tab, "the buy-back of assets tolled just after the last quarter." I mean it seems as if he's saying you can't use that, you can't use that if the buy-back is after the last quarter or can you?

I mean that would seem as if it would affect how you're selling.

Ms. SMILEY. I'm sorry, I'm just not getting what you're asking.

Mr. DEUTSCH. All of this implies that the service is not an asset, that it has no relevance to your sale and that this means that we did not complete the earnings process with the original sale and should not have been booked and should not have booked any revenues. I mean that means you're booking any revenues if you're going to get it done in that quarter.

Ms. SMILEY. It's my understanding there are a number of conditions that have to take place in order for Qwest to book the revenue up front. I'm not an accountant. I don't know the exhaustive list. During negotiations, I learned a few things such as it does need to be activated before the end of the quarter. There needs to be partial patient, those sorts of things. There needs to be a clearly identifiable asset and I do know that there's a distinction between a service and an asset.

Mr. DEUTSCH. Would you be spending your time though negotiating contracts that don't book revenue?

Ms. SMILEY. I'm sorry?

Mr. DEUTSCH. Would you be spending your time negotiating contracts that don't book revenue?

Ms. SMILEY. Yes. I've negotiated a number of contracts that book over the life of the contract. That's the distinction. It's either up front revenue recognition in the particular quarter that the transaction occurs or it's over the life of the contract and I have negotiated numerous contracts that have revenue booked over the life of the contract rather than up front revenue.

Mr. DEUTSCH. Would that include an IRU contract?

Ms. SMILEY. I don't know if any of the IRUs that I have worked on were given the recurring revenue treatment versus the up-front. I know that there was a capital lease that I understand that we sold, I believe to Global Crossing and we sold a capital lease one quarter and I believe that was treated as recurring revenue, but again, I'm not involved with that. I don't know precisely what they do with the contracts after they're negotiated and how they treat them.

Mr. DEUTSCH. Ms. Chase, do you want to respond at all to this issue?

Ms. CHASE. I have no comment. Sorry.

Mr. GREENWOOD. Ms. DeGette?

Ms. DEGETTE. Thank you, Mr. Chairman. Let me ask you, Ms. Smiley, when you negotiated all of these deals, who was your superior and did you take—what was your requirement of clearing these deals through someone?

Ms. SMILEY. First, let me make very clear I didn't have any approval authority for any term or condition on these deals.

Ms. DEGETTE. So who approved these deals?

Ms. SMILEY. Our price and upper management group.

Ms. DEGETTE. Who was in charge of that?

Ms. SMILEY. It varied on different deals. Dan Nimps was on some of the deals. Martha Pye was on some of the deals. Roger Hoaglund was their superior and he was involved in certain aspects of the transactions, but pricing and upper management had ultimate authority and approval on all the deal terms, not me. I was just a mouth piece—

Ms. DEGETTE. So you presented them with all the terms and conditions?

Ms. SMILEY. They participated in the negotiations. We worked as a team.

Ms. DEGETTE. Mr. Chairman, I'd ask if this witness could supplement her answer today in writing, specifying, because I think this will really help us in our investigation, specifying exactly who approved of all of these deals, particularly the deals with Global Crossing and also the deals with FLAG.

Mr. GREENWOOD. Will you do that, Ms. Smiley?

Ms. SMILEY. We could, but just to let you know the staff does have sign-off sheets as part of document production which have line items that show that network planning, if someone signs off on behalf of that, someone signs off on behalf of legal. Someone signs off on behalf of price and upper management and the staff has those.

Mr. GREENWOOD. For how long has that been the case, if the gentlelady will yield?

Ms. SMILEY. I believe, I don't know whether it was 2000 or 2001 that that took place. Prior to that, if the request is to go back and look at the deals and figure out who was involved, assuming counsel has no issue with that, I'm fine.

Mr. GREENWOOD. I would suggest that staff prepare questions of that nature in writing and present them to Ms. Smiley.

Ms. DEGETTE. That would be great, Mr. Chairman, and I'll tell you why I can't rely just on the sheets that were produced because I don't personally have all of the documents. Committee staff has that, so we'll go through it. We'll ask committee staff to prepare questions and I would ask that the answers be supplemented maybe within 10 days after the questions go out, seeing as this is an on-going investigation.

Ms. SMILEY. I'd be more than happy to cooperate.

Mr. GREENWOOD. Thank you, Ms. Smiley.

Ms. DEGETTE. I want to ask you a question, Mr. Floyd, Qwest sold PC-1 capacity to FLAG for \$19,921,767. Is that accurate?

Mr. FLOYD. I was calling it \$20 million. I'm not sure what the rest of it is.

Ms. DEGETTE. We've had so many accountants in here rounding around, I thought I might be specific for one moment, but roughly \$20 million?

Mr. FLOYD. Yes.

Ms. DEGETTE. And let me ask you, did that capacity, did that ever get delivered to FLAG?

Mr. FLOYD. Not as of yet, no.

Ms. DEGETTE. Now, Ms. Smiley, I guess it would be Ms. Smiley, in documents that have been provided to us by your attorneys, it indicates that roughly \$20 million was recognized by Qwest that very quarter.

Let me ask you, how often did Qwest do deals where it recognized revenue, but never actually delivered the capacity?

Ms. SMILEY. It's my understanding that the capacity was delivered, that we had acceptance letters signed by FLAG, so it's my understanding that the capacity was delivered.

Ms. DEGETTE. Is that accurate, Mr. Floyd? Do you have acceptance letters signed that you did, in fact, receive the capacity?

Mr. FLOYD. Yes, we did.

Ms. DEGETTE. But you never got the capacity?

Mr. FLOYD. It was helping Qwest as far as through their internal processes. We did not mind signing an activation letter. The understanding is that we're going to get it turned on.

Ms. DEGETTE. But has it been turned on?

Mr. FLOYD. No.

Ms. DEGETTE. Who signed that letter?

Mr. FLOYD. It may have been something in the provision. I do not know. I do not know who that would be.

Ms. DEGETTE. So what you're saying is someone at FLAG signed an activation letter in order to help Qwest. Qwest booked the revenue, but you guys never got the capacity?

Mr. FLOYD. We're waiting on the local loop at this point. It's not as urgent. Our immediate requirement to get trans-Pacific capacity, we went out and bought an IRU from somebody else just to—we had some World Cup transmission we wanted to get going and the World Cup wasn't going to wait for us.

Ms. DEGETTE. When did you give Qwest the \$20 million?

Mr. FLOYD. We gave them \$15 million at the time of—right after signature.

Ms. DEGETTE. When was that?

Mr. FLOYD. June 2001.

Ms. DEGETTE. But you didn't have any of the capacity turned on as June 2001?

Mr. FLOYD. Right.

Ms. DEGETTE. And you don't have it turned on today, but you signed the activation letter?

Mr. FLOYD. We're still trying to work with them.

Ms. DEGETTE. Who asked you to sign the activation letter?

Mr. FLOYD. It would have been the team, the negotiations team.

Ms. DEGETTE. Any particular person?

Mr. FLOYD. I'm not sure.

Ms. DEGETTE. You don't remember. Have you done any other deals like this with anyone else where you give some \$20 million for something, but you don't actually get it?

Mr. FLOYD. No, I can't say that we've done that one yet.

Ms. DEGETTE. Ms. Chase, did you negotiate that deal?

Ms. CHASE. I was involved, yes.

Ms. DEGETTE. You need to pull the microphone closer.

Ms. CHASE. Yes, I was involved.

Ms. DEGETTE. Did you ask for the activation letter from FLAG?



Ms. CHASE. I actually believe that we delivered the capacity between the points in which we were asked to deliver it, but if I can recall correctly that requirement changed and they wanted the capacity to go to another cable station on another side.

Ms. DEGETTE. Is that accurate, Mr. Floyd?

Mr. FLOYD. Whether it was activated, I'm not sure. Susan is very correct in that we decided to change the activation point. That's when we had the problem with that one and then we said just give us the Japan/U.S. and it kind of snowballed from there, said okay, stop just go back, give us the PC-1 and we're just, I think we're in the process of finalizing that right now.

Ms. DEGETTE. Let me ask you, Ms. Wright—

Mr. GREENWOOD. Would the gentlelady yield for just a moment?

Ms. DEGETTE. I'd be happy to yield.

Mr. GREENWOOD. I'm looking at a document, Mr. Floyd, about this transaction, this FLAG Telecom, Japan Ltd., FLAG Telecom Network, U.S.A., Ltd., FLAG. There's a letter of agreement, 6/27/01 and the contract amount was \$20 million and I think you said that you paid \$15 million for it?

Mr. FLOYD. The payment process was \$15 million on activation and \$5 million after 1 year.

Mr. GREENWOOD. And I understand that Qwest for the \$20 million recognized revenue of almost the full \$20 million, \$19,921,767.

Can you explain that?

Mr. FLOYD. I don't know how they worked that piece of it.

Mr. GREENWOOD. How about Ms. Smiley or Ms. Chase, can you explain how, if you received \$15 million you would have recognized revenue of \$19.9 million?

Ms. SMILEY. Again, I don't have anything to do with what amounts in the contracts we recognized.

Mr. GREENWOOD. Ms. Chase, can you shed any light on that?

Ms. CHASE. I cannot.

Mr. GREENWOOD. I thank the gentlelady for yielding.

Ms. DEGETTE. Thank you. Ms. Wright, if you could turn to Exhibit 55 in the notebook. This is a memo from you to a number of people and what it says is "in our deals with Qwest in a capacity dark fiber that we buy from them has to be activated in order for them to get revenue recognition since in many cases we buy a bucket of services. They just activate what they can and we have the right to port it, what we want once we decide what we want. We've always agreed that the value is what we paid for, not fair market value" and then it goes.

Now the truth is this is pretty much a summary of the deals that you guys negotiated with Qwest, isn't it?

This is how the deals were structured, right?

Ms. WRIGHT. I would say that's accurate.

Ms. DEGETTE. And my question is why would you contract with somebody for something that you didn't already have? What was the business reason to do that?

Ms. WRIGHT. Why would we contract?

Ms. DEGETTE. Why would you make a contract with Qwest for something that's not specified? In other words for an undefined port for something that's unspecified?

Ms. WRIGHT. What we try to do is for the things that we do know that we absolutely have an urgent need for, we specify those in the contract. The rest, we wait until we get information from customers to determine what the end points might be.

Ms. DEGETTE. In fact, you did the deals, you structured the deals the way you did because of Qwest's revenue recognition that the revenue had to be recognized by the end of the quarter, right? That's what you also say in this memo.

Ms. WRIGHT. We structured the deal to accommodate what they told us was revenue recognition issues, yes.

Ms. DEGETTE. And would there have been any reason for you to structure deals the way you did other than Qwest revenue recognition rules?

Ms. WRIGHT. Well, there are a lot of different reasons to structure the deals in certain ways. I'm not sure if I understand your question.

Ms. DEGETTE. Well, I think you said it yourself in many of your memos that we've been talking about today where you're negotiating deals with Qwest and you are buying things that you don't need or want. You say that in your memos, right, some of your memos?

Ms. WRIGHT. As we went on in time, that was my position, yes.

Ms. DEGETTE. What would the business reason for that, to do that be without portability?

Ms. WRIGHT. Without portability?

Ms. DEGETTE. Why would you structure deals without portability? What would the business reason for that be?

Ms. WRIGHT. We would not structure a deal without portability.

Ms. DEGETTE. But you did structure deals like that, didn't you? No.

Let me try to back up and restate my question. The deals you structured, as you increasingly went along with Qwest, the deals that you structured, why would you do that if they didn't have anything to give to you in return at that time, as you said in your memos?

Ms. WRIGHT. Sometimes, it depended on what the circumstance was. Sometimes if it was a dark fiber, it takes a while to activate that and we were doing deals the last few days of the quarter. There was no way you could activate dark fiber, so we took—in essence, we bought a gift certificate.

Ms. DEGETTE. And that was no problem with your accounting because you guys were amortizing the revenue over the life of the contract, right? So you could buy dark fiber just fine.

Ms. WRIGHT. I'm not an accountant, but I didn't know there were any issues. You're right.

Ms. DEGETTE. But even Qwest admitted to you during these negotiations that they were forcing you to say that you took things that you didn't really want, right? I mean you took routes, you took all kinds of things that you really didn't need on the assumption that you could then later change those agreements?

Ms. WRIGHT. That's true.

Ms. DEGETTE. So without that side agreement, you would have never made the agreement in the first place, right? It wouldn't have made business sense for you.

Ms. WRIGHT. Without the side letter on portability, you're correct, it would not have made business sense.

Ms. DEGETTE. Right. And some of the agreements were not in writing, they were oral, correct?

Ms. WRIGHT. The only oral agreement that we had was relative to the fair market value versus the purchase price.

Ms. DEGETTE. And would it have made sense for you to do the deal without that side oral agreement?

Ms. WRIGHT. That one actually, the risk was not too great because of what I explained in terms of the drop in prices, so obviously we wanted the purchase price honored, but we settled for the oral agreement.

Ms. DEGETTE. Okay, thank you. I have no further questions.

Mr. GREENWOOD. The Chair thanks the gentlelady. The Chair thanks each of our witnesses. We know this has been a long and tedious day for you and one you've not looked forward to, but you've all acquitted yourself well and we appreciate your cooperation.

This hearing is now adjourned.

[Whereupon, at 3:50 p.m., the hearing was adjourned.]

[Additional material submitted for the record follow:]

| Global Crossing- Making the Numbers |   |           |
|-------------------------------------|---|-----------|
| Document #                          | Description   | Date      |
| 1                                   | Email: re: Telefonica deal discussion-> the importance of exchanging cash for revenue recognition   | 11/9/2000 |
| 2                                   | Email: Fitzpatrick to others re: Pushing to close three new "extremely large" IRU deals to make the Quarter. "Pull rabbit out of hat."  | 2/5/2001  |
| 3                                   | Email: Wright to Joggerst re: "attitude adjustment." Joggerst tells Carey Qwest is a must do to meet Q numbers and tells him to straighten out an employee questioning timing | 3/8/2001  |
| 4                                   | Email: Wright to Joggerst re: asking Walsh to tell Dawson/network folks that will need capex to meet street expectations  | 3/9/2001  |
| 5                                   | Email: Wright to Grivner et. al. re: 1Q Reciprocal Deals- need to make network purchases of \$250-350M to meet revenue target   | 3/13/2001 |
| 6                                   | March 16 IRU funnel   | 3/16/2001 |
| 7                                   | Minutes of BOD Exec. Cmte. Meeting where approve 360 and Centennial   | 3/30/2001 |
| 8                                   | Email from network people expressing discomfort about reciprocal deals.   | 3/14/2001 |
| 9                                   | Email: Coghill tells Dawson he can't justify \$60M in domestic waves in Qwest deal  | 3/28/2001 |
| 10                                  | Email: Fitzpatrick to others warning that he and Joggerst foresee a potential gap of \$750M in cash rev. forecast   | 5/8/2001  |
| 11                                  | Email: Yaremko to Gutierrez that have no intent to integrate 360 NA waves or Qwest NA waves--done only for Qwest revenue recognition  | 5/11/2001 |
| 12                                  | Email: Joggerst to others re: carrier being asked to close \$650M of IRU business to support GX Q numbers   | 5/15/2001 |
| 13                                  | Email chain on potential GX violation of debt covenants and consequences "This is the definition of panic"  | 5/17/2001 |
| 14                                  | Email: Gorton asking Casey if compensate sales team same on reciprocal transactions as straight sales. Casey replies we need these sales to meet Q #s.                        | 6/1/2001  |
| 15                                  | Email: Walsh to Fitzpatrick and Joggerst discussing Q update and role Winnick can play in a deal->Q "All hands on deck"   | 6/6/2001  |

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| 16 | Joggerst email about "super-sizing" 2Q deals  | 6/25/2001 |
| 17 | Email from Joggerst to Dawson about urgent Flag deal--they are requiring that GX buy \$40M from them  | 6/28/2001 |
| 18 | Email from Gorton to Winnick about list Winnick suggested of customers Board could help with and attached funnel  | 6/19/2001 |
| 19 | Email from Fitzpatrick to Joggerst (Qwest deal) that the European market would not support business case. "Putting our names and careers on the line..."                        | 6/28/2001 |
| 20 | Email from Casey to Joggerst that carrier is missing its revenue # badly and that Joggerst needs to find solution   | 7/14/2001 |
| 21 | Whistleblower letter from Roy Olofson to Jim Gorton   | 8/6/2001  |
| 22 | Email from Walsh outlining "big deal battle plan" for top execs and Winnick to land accounts. Winnick assigned to Worldcom  | 8/13/2001 |
| 23 | Urgent email from Joggerst saying that Winnick and Casey have asked carrier and corporate development to come up with "creative deals"  | 8/14/2001 |
| 24 | Email from Wright suggesting will have hard time finding \$75M of capacity to buy from Qwest  | 8/24/2001 |
| 25 | Email from Wright complaining that IRU target is unreasonable   | 8/30/2000 |
| 26 | Email from Wright to Walsh expressing concern about the IRU number  | 8/30/2000 |
| 27 | Email from Winkler complaining that he has been charged with "the daunting task of figuring out how to sell the junk" GX got in reciprocal deals                                | 9/4/2001  |
| 28 | Email from Fitzpatrick to Walsh outlining potential 3Q reciprocal deals and expressing concern that they are bad deals for the company  | 9/6/2001  |
| 29 | Email from Joggerst to Yaremko relating to scenarios to get Q done. Need Yaremko input for revenue recognition  | 9/10/2001 |
| 30 | Joey Wong email complaining about business case justification and "this swap crap is going to kill us"  | 9/25/2001 |
| 31 | Email chain where Joggerst complains to Wright and Walsh that others are trying to kill deals representing \$450M of attempt to get \$675M revenue. Cali complains no PM input. | 9/26/2001 |

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|--------------|--|------------|
| 32           | Fitzpatrick's email about Qwest Scandinavia deal--"Don't mask a business plan to justify an ugly deal" and Joggerst's response                       | 9/27/2001  |
| <b>Qwest</b> |  |            |
| 33           | Email between Mohebbi and Casey in which Q1 IRU deals are listed, to which Mohebbi replies "we probably will eat all this and then some"             | 2/9/2001   |
| 34           | Email discussion between Casey and Mohebbi about CFO's announcement that there can be no more non-monetary transactions                              | 5/10/2001  |
| 35           | Email discussion between Casey and Mohebbi about whether will meet Q numbers and whether Qwest can engage in swaps                                   | 5/14/2001  |
| 36           | Email discussion about 2Q transactions with Flag. Bill Norris expresses concerns   | 5/16/2001  |
| 37           | Email chain discussing 2Q deal with GX and fact that "capacity on the table is growing from reciprocity"; "Is that what people call revenue drive?!" | 6/8/2001   |
| 38           | Casey/Mohebbi email discussion about Ross Lau's Asia projects for 2Q. Mohebbi replies, "You need to get more out of him"                             | 6/11/2001  |
| 39           | Memo from Szeliga where she lays out ground rules for IRU accounting and requirements for two-way transactions                                       | 8/2/2001   |
| 40           | Email from Mohebbi stating that commitments to buy capacity are eating away at capex. Pressures sales people to sell "circuits we can book."         | 9/28/2001  |
| 41           | Email chain discussing deal with C&W. Discussion in last hours of Q of fact that although no signed documents, had binding deal as of Friday.        | 10/1/2001  |
| 42           | Email from Mohebbi stating that Andersen ruled deal with C&W could not be booked in 3Q because not completed on time.                                | 10/11/2001 |
| 43           | Email from Hellman about Qwest's internal auditor's decision to leave. "Until the consequences are equal the behavior will not change."              | 10/25/2001 |
| 44           | Anonymous email sent to Robin Szeliga threatening to tell the SEC about Qwest accounting violations if Qwest reduces managers' salaries.             | 3/21/2002  |

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|---|---|-----------|
| 45  | Mark Iwan of Andersen's notes from his interview with Bryan Treadway, Qwest Controller, as part of inquiry.   | 3/24/2002 |
| 46  | Email from anonymous person asking person he mistakenly thinks is a Board member to fire Nacchio and Tempest.   | 4/25/2002 |
| <b>Global Crossing/Qwest Transactions</b> |   |           |
| 47  | GX email: Discussion of Qwest portability on GX network. Wright states, "We are swapping \$100M checks this Q."   | 3/12/2001 |
| 48  | GX email: Armstrong's draft of the 1Q portability side letter   | 3/27/2001 |
| 49  | Qwest email chain. Wright (GX) outlines her problems with deal, and Susan forwards with comment "I agree with Robin we are forcing them to take stuff they do not have a need for."   | 3/28/2001 |
| 50  | GX email: Wright discusses details of 1Q deal and states that have portability; Alavanja has questions for business case  | 3/29/2001 |
| 51  | 1Q portability side letter containing mutual consent and good faith language  | 3/27/2001 |
| 52  | Draft of 2Q portability side letter (attached to GX email)  | 6/21/2001 |
| 53  | Email chain between GX and Qwest discussing OA&M and how GX does not want to pay this on ducts and dark fiber that are not complete.  | 6/22/2001 |
| 54  | Email chain between GX and Qwest outlining outstanding issues on 2Q agreement. Armstrong states that GX won't accept fair market value over purchase price on portability. "We have this argument every Q."                               | 6/24/2001 |
| 55  | GX email from Wright in which she says she and Chase agreed Walsh and Greg Casey would talk tomorrow to get "gentleman's agreement" to establish portability pricing at purchase price."  | 6/25/2001 |
| 56  | Internal GX email between Armstrong and Wright discussing Qwest's insistence on fair market value pricing for revenue.  | 6/25/2001 |
| 57  | Email chain between GX and Qwest on portability price issue. Wright states both sides have agreed that repurchase price would be the actual amount paid and not fair market value. Chase agrees. "It is our intention to keep you whole." | 6/25/2001 |

|                                |  |           |
|--------------------------------|--|-----------|
| 58                             | Email from Armstrong stating that Qwest sale agreement has fair market value language. "Qwest wording adapted to how we do portability."   | 6/25/2001 |
| 59                             | 2Q portability side letter with mutual agreement and fair market value language.   | 6/27/2001 |
| 60                             | 2Q portability side letter with mutual agreement and fair market value language.   | 6/29/2001 |
| 61                             | 2Q portability side letter with mutual agreement and fair market value language. Also attached is email string from August indicating problems with attempt to port. Armstrong states that what was in agreement and what they agreed to were not the same--done for Qwest accounting. | 6/29/2001 |
| 62                             | Qwest email chain discussing how deals may be in jeopardy because Qwest not willing to spend capital. Also contains discussion with Armstrong about contract language.   | 9/20/2001 |
| 63                             | Email from Armstrong in which she discusses prior portability side letter. "We need their consent to swap- but we had their word they would consent."  | 9/25/2001 |
| 64                             | Email exchange in which Chase asks for technical accounting explanation for why Qwest cannot allow porting   | 9/26/2001 |
| 65                             | Email string beginning with Armstrong expressing frustration that Qwest has not agreed to allow GX to port. Chase forwards with quote "Our word is our bond."  | 12/3/2001 |
| <b>Qwest/Flag Transactions</b> |  |           |
| 66                             | Floyd sends details of deal to Qwest including J-US portability. Chase states Qwest sale side looks OK to me.  | 5/7/2001  |
| 67                             | From Chase to Casey re: Flag porting to J-US- states Qwest does not have issue with this and Flag is willing to trust Qwest, requests call to Ed McCormack   | 6/4/2001  |
| 68                             | Smiley inquiring into revenue recognition issues after Flag inquires about whether can port to J-US. Hansen responds "Not inclined to buy back and write down revenue for Q."  | 12/4/2001 |
| 69                             | Communication between Floyd, Smiley, and Chase re: conference call- requests accounting/revenue person on call.  | 12/6/2001 |



|                    |  |            |
|--------------------|--|------------|
| 70                 | From Shawna Lee to Smiley re: conversation with Ken Floyd about Andersen audit letter  | 12/11/2001 |
| 71                 | From Floyd to Chase, Moorhead, Smiley, and Lee. Re; Qwest's legal interpretation of an IRU and exposure on revenue recognition.                        | 12/20/2001 |
| 72                 | Floyd advising Qwest that audit letter response completed and sent to auditors.  | 12/21/2001 |
| 73                 | Completed audit letter from Floyd (Flag)- cites verbal agreement between companies, includes facts sheets to AA and Qwest                              | 11/14/2001 |
| 74                 | Internal Qwest investigation of June 2001 Flag transaction portability issues.   | 1/17/2002  |
| <b>C&amp;W/KMC</b> |  |            |
| 75                 | Email chain re: C&W email ; K Stout send wording to Mohebbi's assistant.   | 12/29/2000 |
| 76                 | Greg Casey letter to C&W, signed   | 12/29/2000 |
| 77                 | Greg Casey letter to C&W, unsigned   | 12/29/2000 |
| 78                 | Mohebbi email to Nick Jeffrey at C&W   | 12/29/2000 |
| 79                 | Correspondence between Matthew Scott and K. Stout re: C&W letter. Discussion of its enforceability. "Spirit of cooperation."                           | 7/5/2001   |
| 80                 | Forward from Smiley to Scott of email chain regarding C&W letter and email language. Shows drafted by Alan Coe of C&W.                                 | 10/23/2001 |
| 81                 | Forward from Smiley to Casey and Dalton of email chain re: C&W letter and email. Shows accounting approval from J. Black and Andrew Glassman.          | 10/23/2001 |
| 82                 | Emails between K. Smiley and M. Scott re: C&W side letter.   | 10/23/2001 |
| 83                 | Meeting minutes of audit committee telephonic meeting. Szeliga discusses C&W and KMC issues.   | 10/29/2001 |
| 84                 | Chronology of events prepared by Schumacher for Szeliga to use at Oct. 29, 2001 Audit Committee meeting. Subject : KMC and C&W                         | undated    |
| 85                 | Letter from C&W to Gordon Martin re: C&W's exercise of its rights under Greg Casey's side letter. Includes emails from C&W forwarding letter to Qwest. | 12/28/2001 |
| 86                 | Draft of Graham Wallace' letter to Nacchio re: C&W's desire to exchange capacity per Greg Casey letter and Mohebbi email.                              | 2/19/2002  |

|    |   |            |
|----|---|------------|
| 87 | Szeliga's notes from speaking with analysts   |            |
| 88 | Email from Wally Dawson approving 1Q deal with Qwest with caveat that wavelengths not be integrated into GX network.  | 3/9/2001   |
| 89 | Email requesting that GX turn up waves for Qwest revenue recognition purposes.  | 9/24/2001  |
| 90 | Carl Alu asks Dawson for help in telling Joe Perrone that GX should write off assets it is not going to integrate into the network.                                   | 9/27/2001  |
| 91 | Jami Delorimier's email to Chris Nash asking for advice in disposing of \$100M of fiber and wavelength purchased from Qwest that will not be integrated into network. | 11/29/2001 |

**CONFIDENTIAL****From:** O'Neill, Charles**To:** Arnold, Richard; Vries, Gerben de; Oudejans, Rene; Meulen, Koos van der; Muir, Donald; McShane, John; Secilla, Juan Pedro; Calis, Peter**CC:** Yaremko, Robert; Wood, John; Tweed, Shaun; Mittertreiner, Frank; Pearson, Alistair**BCC:****Subject:** Authorisation will be required for the purchase element of Telefonica swap- same as was followed for KPNQwest{F}**Date:** 11/9/2000 10:00:18 AM**Attachments:**

---

Richard,

Do we consider the capex for repeater sites that will be displaced by collocation with Telefonica as a part of the deal? Also, as part of the Business Case we identified opex associated with maintaining both the duct system, and the fibers. These costs are also covered by the agreement. How do we treat these elements? Finally, a portion of the fiber link is within the cities of Bilbao and Barcelona. Typically, the costs of city builds are much higher than the backbone routes. The capex (\$10/meter) for installed duct and fiber are backbone assumptions. I estimate that Telefonica will need to construct at least 20 Km of city fiber in total, in order to reach our POPs. What cost assumption is appropriate for these sections?

Finally (I promise), please help me understand how we evaluate the costs of acquisition when payment in kind is the currency? I have been told that the margins on the capacity products being swapped in this case are in the order of 50-75%. Should not the costs of acquiring the fiber be equal to the transfer costs (balance sheet) for the capacity being traded? Any insight is appreciated.

Charlie

-----Original Message-----

**From:** Arnold, Richard**Sent:** Thursday, November 09, 2000 3:35 PM**To:** Vries, Gerben de; Oudejans, Rene; Meulen, Koos van der; Muir, Donald; McShane, John; Secilla, Juan Pedro; Calis, Peter; O'Neill, Charles**Cc:** Yaremko, Robert; Wood, John; Tweed, Shaun; Mittertreiner, Frank; Pearson, Alistair**Subject:** Authorisation will be required for the purchase element of Telefonica swap- same as was followed for KPNQwest

Depending on the value of the deal agreed, based on Gerben's analysis we will need to apply for authorisation to exceed planned capex. A similar procedure was followed for KPNQwest, per Gerben's analysis the business case is \$15.85m.

Regards

Richard

-----Original Message-----

From: Vries, Gerben de  
Sent: 09 November 2000 14:24  
To: Arnold, Richard; Oudejans, Rene; Meulen, Koos van der; Muir, Donald; McShane, John; Secilla, Juan Pedro  
Cc: Yaremko, Robert; Wood, John; Tweed, Shaun; Mittertreiner, Frank; Pearson, Alistair  
Subject: RE: Telefonica deal Response Required by end of Friday

Richard

Barcelona-Perthusle (French border) approx. 165 km. Duct deployment capex \$ 7.8 mio, cable \$ 1.65 mio, total \$ 9.45 mio.  
Bilbao-Hendaye (French border) approx. 120 km. Duct deployment capex \$ 5.2 mio, cable \$ 1.2 mio, total \$ 6.4 mio.

Regards  
Gerben

-----Original Message-----

From: Arnold, Richard  
Sent: Thursday, November 09, 2000 1:32 PM  
To: Oudejans, Rene; Meulen, Koos van der; Muir, Donald; McShane, John; Secilla, Juan Pedro  
Cc: Yaremko, Robert; Vries, Gerben de; Wood, John; Tweed, Shaun; Mittertreiner, Frank; Pearson, Alistair  
Subject: Telefonica deal Response Required by end of Friday

Rob,

Please find advised the latest update, can you assist me with evaluating the latest pricing relative to the market, will call later to discuss to make sure that it is supportable

Gerben,

Please can you forward your calculation of the budgetted business case costs relative to the specific sections we are considering, to assess how far we can go in terms of price before we break our approval.

Alistair/Frank

Please can you update/submit your anticipated issues in respect of taxation for this deal, particularly characterisation and statutory entity

John(Wood)

Please can you review to make sure that you are happy from a spanish accounting perspective

Shaun

Could you let me know whether there are any OAM issues you foresee with this deal

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Thanks, lets all facilitate moving this forward as soon as possible as we desperately need this deal this quarter, I would appreciate answers wherever possible by the end of Friday

Regards

Richard

-----Original Message-----

From: Secilla, Juan Pedro

Sent: 09 November 2000 08:14

To: Bosch, Frits; Calis, Peter; Ruiter, Peter de; O'Neill, Charles; Nieveld, Gert; Arnold, Richard; Lopez Bravo, Javier

Subject: Telefonica meeting

Let me summarise the key conclusions obtained after the very positive meeting held with Telefonica (Fernando Lombart, Director of International Traffic, and his team) yesterday.

- In principle, we agreed to proceed with the agreement in the terms outlined in previous meetings (24 fp in Spain for capacity in PEC/AC-1).

- Telefonica agreed to studying a potential equal increase of the size of the deal on both sides (I got a call from Fernando Lombart yesterday evening and he told me they are studying to make the size 40 M\$ approx).

- Telefonica agreed to increase the unit price of the STM-4 IRU (20 year, including O&M) closer to the levels we proposed to them yesterday: 1.54 M\$ between A cities, 2.15 M\$ between Spanish cities and A cities, 3.71 M\$ in AC-1. Fernando told me this is still a little above market prices and probably they will ask for a reduction of 20% on these prices.

- We agreed to have a single contract for the transaction and that each party should bill each other. However, Telefonica must check with their finance people whether they can accommodate our request to have cash actually change hands. Their problem seems to be more an impact on budget than their inability to do it.

- Telefonica asked GC to keep the agreement fully confidential. We agreed not to disclose the strategic agreement but still asked them to be able to reference Telefonica as one of our key customers in Europe.

- Regarding our purchase of waves from them in Spain as a condition to proceed, Telefonica relaxed their requirement and we agreed that the formula should be that if GC eventually decides to buy waves in Spain, Telefonica will have the condition of preferred supplier for this purchase. But no firm commitment at all from our side.

They will study all these open issues and will send us a final proposal tomorrow Friday.

IMPORTANT: given the importance of sending cash for revenue recognition purposes, if Telefonica's position tomorrow is that they cannot do it, I think we should stress the importance of

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this for us and make it a condition to proceed. In order to be positive, we can suggest them to have a meeting with our finance/tax people to find out a suitable formula that satisfies both parties. Remember that their problem would not be that they may not do it, but rather an internal budget constraint that they should be able to circumvent if at the same time we send them cash for the same amount of money.

Thanks to all.

Juan Pedro Secilla  
Sales Director Wholesale

Global Crossing Spain  
Paseo de la Castellana, 36-39, planta 9  
28046 Madrid, Spain  
Phone: +34.91.7872200  
Fax: +34.91.7872222  
Mobile: +34.667782401

4/0002015: 1st Q \$550M target - emergency conf call

1460 10/1

**CONFIDENTIAL****From:** BRIAN FITZPATRICK**To:** Patrick Joggerst; John Mercogliano; Robin Wright; Tony Sgroi; Omar A. Altaji; Ted Higase; Frits Bosch; Charles Barker; Robert Yaremko; Lisa Dadouris; Tony Palma**CC:****BCC:****Subject:** 1st Q \$550M target - emergency conf call**Date:** 2/5/2001 12:14:24 PM**Attachments:**

To all:

I have scheduled a conference call for this Thursday, Feb. 8th, 9-10AM (NYC).

The agenda for the call is to openly discuss the Top 3 (largest) potential 1stQ carrier IRU deals, by region. The only way we are going to pull out this quarter is to "intensely focus" on closing 2-3 "extremely large" IRU deal "that are not currently being discussed". We will not make the quarter by focusing on the current deal list being discussed on our Monday calls. In addition, we need 2-3 home runs - period!!! We all need to do some serious thinking before this call. We need to pull some pretty big rabbits out of our hat within the next few weeks and all of you will need to play a role in making it happen. Pulling in some huge deals, or restructuring currently working deals - we need to consider everything. The only answer is think BIG. Once we identify our attack strategy we can list out owners per targeted deal and align our internal resources to make the deals happen. Think big - No Limits!

Conference bridge is as follows:

access # (Domestic US) 888-447-1225

access # (Outside US) 303-248-1820

PIN # 657-539

I look forward to discussing our top 3 targets by region Thursday (2/8) at 9AM.

Brian

02/05/01

**CONFIDENTIAL**

**From:** Wright, Robin  
**To:** Joggerst, Patrick  
**CC:**  
**BCC:**  
**Subject:** Help -- attitude adjustment (?) {F}  
**Date:** 3/8/2001 10:07:54 AM

**Attachments:**

you so totally rock

## -----Original Message-----

**From:** Joggerst, Patrick  
**Sent:** Thursday, March 08, 2001 1:04 PM  
**To:** CAREY, DAVID  
**Subject:** Help -- attitude adjustment (?)

Dave,

I need your help -- Qwest is now in the MOST DO category to make this quarter's numbers. I don't know Amy, but there seems to be an edge to her email that we really cannot tolerate.

Maybe I am wrong, but if you described to her the kind of melt-down that 360 is experiencing right now, she will better understand that we must meet our quarterly numbers.

There are a few people that work 24 hours a day to get the numbers in -- is Amy among them? If not, lets get her with the program.

Thanks,  
 Patrick

## -----Original Message-----

**From:** AMY BRAUCH [mailto:amy\_brauch@globalcrossing.com]  
**Sent:** Thursday, March 08, 2001 12:08 PM  
**To:** Wright Robin  
**Cc:** Antonucci Mike; CAREY DAVID; Dole Jim; Thieme Doug; Schroeder Thomas; Croan Quinn; SEIFFER ERIKA  
**Subject:** Re: [Fwd: CLEC customer prems lit022801master.xls]

All,

We can meet your deadline if we drop all other projects we are working on. This will come with a price in that we will not be able to work on implementing other savings projects.



360009309: Help -- attitude adjustment (?) {F}

Page 2 of 4

In the future, it would be helpful for us to have more advance notice so that we can plan our time to accomodate you.

Please feel free to discuss further if need be.

Thanks,  
Amy

"Wright, Robin" wrote:

> Amy,  
> I don't want to be a pain, but we are pushing to close this deal this  
> quarter. That means that we need to have our buy side nailed down no later  
> than the middle of next week. Is there a way that we can short cut this?  
> This is one of our highest priorities for the quarter and we have to be in  
> contract discussions by the end of next week.  
>  
> Thanks, Robin  
>  
> -----Original Message-----  
> From: AMY BRAUCH [mailto:amy\_brauch@globalcrossing.com]  
> Sent: Thursday, March 08, 2001 9:03 AM  
> To: Antonucci Mike  
> Cc: CAREY DAVID; Dole Jim; Wright Robin; Thieme Doug; Schroeder Thomas;  
> Croan Quinn; ERIKA SEIFFER  
> Subject: Re: [Fwd: CLEC customer prems lit022801master.xls]  
>  
> We are expecting a timeframe for completion of the below initiatives to take  
> one week for the  
> address comparison, and then another week for the expense information. We  
> will provide information  
> as we receive with all information being provided by 3/21. Please let me  
> know if this does not  
> meet your requirements.  
>  
> Thanks,  
> Amy  
>  
> "Antonucci, Mike" wrote:  
>  
>> Folks,  
>> Attached are two spread sheets. The sheet named Qwest shows the Qwest  
>> building list with columns indicating building type, whether or not it is  
>> on  
>> the Level 3 building list, GBLX lit, GBLX planned without a solution, GBLX  
>> planned with a solution. Cities not populated indicate no data or no  
>> plans.  
>> The second sheet shows present OC capacity ordered from other  
>> carriers  
>> and where we ordered it.

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7/1/02

360009309: Help -- attitude adjustment (?) {F}

Page 3 of 4

```
>>
>>
>>
>> Mike Antonucci Sr. Manager
>> Network Planning-Metro Build
>> 973 410 8720
>>
>> -----Original Message-----
>> From: DAVID CAREY [mailto:david_carey@globalcrossing.com]
>> Sent: Wednesday, March 07, 2001 12:30 PM
>> To: Mike Antonucci; Jim Dole; Amy Brauch
>> Cc: Robin Wright; Doug Thieme
>> Subject: [Fwd: CLEC customer prems lit022801master.xls]
>>
>> Mike, Amy & Jim,
>>
>> Attached please find a building list from the Qwest Non Regulated Access
>> Group that was promised to us as part of the due dilligence request
>> associated with putting this deal together.
>>
>> Here is what we need to do:
>>
>> 1. Cross Reference these addresses against our Metro Build Target
>> Building List. This should identify LSO's, Carrier Hotels and Comercial
>> Properties. Mike, lets take the same approach to this as we used from
>> the Telseon cross reference effort.
>>
>> 2. Jim & Amy - Can we look at this list from an "Access Requirement"
>> perspective. The task can be defined as "identify those addresses that
>> we currently purchase access to today and the volume of business thatwe
>> have to this address".
>>
>> 3. I think we should plan to append their spreadsheet with this data
>> which will allow us to support a meaningful conversation on the topic.
>>
>> 4. Once we have identified the buildings of mutual interest then the
>> next task will be to test the competitiveness of their pricing. They
>> have provided me with another file that identifies the service offerings
>> that they have on their metro access facilities. Since their pricing
>> will be building and service specific; fo rpurposesof trying to size
>> this up I think we should pick a "reference point" service offering and
>> set of locations as a sample. We should pick the reference point based
>> on something like and OC48 configured to our standard carrier hotel
>> configuration (so that we can firmly establish a cost basis) and a
>> sample set of locations. This will give us a start point to determine
>> the competitiveness of the offer. I'm still thinking through how to get
>> a feel for the absolute volume of the purchase and i think this is
>> largely dependat on the flexibility in the terms they give us. let's
>> put this on hold for now and revisit as we get a little deeper into
>> this.
>>
```

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7/1/02

360009309: Help -- attitude adjustment (?) {F}

Page 4 of 4

>> 6. Please give me a response on how quickly you can turn around the  
>> request in items 1 & 2.  
>>  
>> thanks for the cooperation !  
>>  
>> dave  
>>  
>> -----  
>> Name: Qwest building list.xls  
>> Qwest building list.xls Type: Microsoft Excel Worksheet  
> (application/vnd.ms-excel)  
>> Encoding: base64  
>> Download Status: Not downloaded with message

360009368: Capex

Page 1 of 1

**CONFIDENTIAL**

**From:** Wright, Robin  
**To:** Joggerst, Patrick  
**CC:**  
**BCC:**  
**Subject:** Capex  
**Date:** 3/9/2001 11:28:41 AM

---

**Attachments:**

---

Patrick,  
Had a Qwest call this afternoon, on it were Jim Dole and Dave Carey. I'm afraid we are not going to get a great deal of enthusiastic support from the network folks without a directive from David. I think he needs to send a message to Wally or perhaps have a joint message from Wally and David that goes like this:

"We are now 3 weeks away from the end of the quarter and it is clear that expediting some capital expenditures is going to be key to meeting the Street's expectations. We are fully aware that we are asking you to do something completely opposite from the direction you are headed, in terms of keeping capex within the budget and being extremely careful about spending. Wally and I, along with the executive committee, will make decisions about the trade off of revenue versus capex. In the meantime, it is our belief that the best approach is to assume we will be making the expenditures as outlined by the sales team. We commit to letting you know as quickly as possible the final decisions to minimize unnecessary work. We appreciate your support of our efforts."

Robin Wright  
Senior VP, Global Sales and Support  
Global Crossing  
88 Pine Street 30th Floor  
NY, NY 10005  
Office: 212-658-8168  
Fax: 212-658-8093  
Mobile: 917-270-5364  
rwright@globalcrossing.com

**CONFIDENTIAL**

**From:** Wright, Robin  
**To:** GRIVNER, CARL; Calis, Peter; Clayton, Joseph; Coghill, Michael; Guzman, Joseph; Rios, Jose; Miller, Dale  
**CC:** Joggerst, Patrick; Fitzpatrick, Brian; Barker, Charles; Thieme, Doug; Walsh, David; Dawson, S. Wallace  
**BCC:**  
**Subject:** 1Q Reciprocal Deals  
**Date:** 3/13/2001 9:00:49 AM

**Attachments:**

I thought I'd check in with the regional heads and respective network gurus about the reciprocal deals on the table for this quarter. Mike, Dale and Peter have been fully engaged in these discussions, but a request from Qwest brings up a question about process/ and I need your guidance.

Right now it looks like we'll need to make network purchases in the neighborhood of \$250M-\$350M in order to meet the revenue target. The high level view is as follows:

- \* Qwest: \$100M - In NA wavelengths (long haul and metro), co-lo, potentially some backhaul in the US; In Europe, potentially some backhaul. Apparently Qwest is on track to meet their quarterly numbers, but KPN/Qwest is struggling. They would like us to allocate \$25M of the \$100M for purchases in Europe.
- \* SingTel: \$24-\$80M capacity to India in i2I
- \* Ebone: \$50M, AC1/2 wavelength and some capacity, co-lo in Europe
- \* EPIK: \$5M (?) Metro waves connecting 4 consortium cables in South Florida, potentially other capacity services
- \* Emergia: \$23M in additional services and capacity, similar to last quarter, possibly dark fiber in Brazil
- \* Comsat: \$6.8M in co-lo, additional services/capacity
- \* 360: \$50-\$100M, Bucket of capacity in Canada, possible waves on AC1

We are building business cases for these purchases and are being meticulous in terms of following the rules for revenue recognition. It does, however, get crazy as we approach the end of the quarter and I want to make sure we are not creating un-do havoc for the regions. Right now it looks like Europe needs to step up and commit to \$25M to KPN/Qwest in order to move the deal along. How do you want to proceed? Peter, do you want to work with us on the specifics of the deal or just step up to the commitment? Also, as a general question, do you want to be updated on the deals or how best should we be communicating as we head toward the end of the quarter?

Thanks, Robin

## IRU STATUS AS OF MARCH 16

|   | Q1/01<br>IRU  | Exec.<br>Owner | Status   |
|---|---------------|----------------|--|
| <b>Q1 NON-RECURRING REVENUES</b>        |               |                |  |
| I. Completed                            | 6.6           |                |  |
| II. Contractually Obligated Activations | 64.6          |                |  |
| RISKS                                   |               |                |  |
| Cable & Wireless                        | 23.0          | Bosch/Meico    | Looks positive for payment, mta Tuxedo to confirm                    |
| III. Other signed deals                 | 50.3          |                |  |
| RISKS                                   |               |                |  |
| Sita Equant (SAC)                       | 25.2          | Bosch          | RISK: Provisioning issue Brazil - \$3.4M, no local copy, 2000 status |
| <b>IV. Primary Targets</b>              | <b>327.8</b>  |                |  |
| <b>PRIMARY TARGET BIG HITTERS</b>       |               |                |  |
| Comsat (DF)                             | 8.8           | Altel          | On track   |
| Comsat (SAC, SS)                        | 12.4          | Altel          | On track   |
| Concert (EAC)                           | 34.0          | Jogger         | Waiting board approval looks positive                                |
| E-Bone (SAC, IAC, DF, EAC)              | 35.0          | Flugplatz      | On track   |
| Energia (SAC)                           | 23.0          | Altel          | On track   |
| EPK (Express, IAC)                      | 15.0          | Pluschke       | RISK: Has to call CEO, Pluschke involved                             |
| Irish Gov. (PEO)                        | 12.2          | Bosch          | Looks good   |
| NetCom (Domestic capacity)              | 31.0          | Serail         | Back on track  |
| NetCom (Overseas, IAC, IAC)             | 89.2          | Wright         | On track   |
| STE (CNO capacity)                      | 10.5          | Higashi        | Looks good   |
| Taka (Dark Fibre)                       | 1.8           | Bosch          | Looks positive   |
| Telecom Italia (IAC, IAC)               | 11.5          | Higashi        | On track   |
| Telecom Italia (IAC, IAC)               | 7.2           | Mercotrans     | On track   |
| <b>Total Primary Big Hitters</b>        | <b>299.2</b>  |                |  |
| <b>V. Secondary Targets</b>             |               |                |  |
| <b>SECONDARY TARGET BIG HITTERS</b>     |               |                |  |
| Centennial (Depot Super Mod)            | 10.0          | Altel          | On track, board meeting 3/16   |
| Decon (CNO capacity)                    | 4.0           | Higashi        | Long shot  |
| CAW (CNO)                               | 25.0          | Jogger         | Long shot, will know more 3/20                                       |
| Enron                                   | 100.0         | Barker         | Starting discussions, long shot                                      |
| Level 3 (PEO)                           | 50.0          | Wright         | Long shot  |
| 360 Networks (EAC)                      | 100.0         | Serail         | In discussions as backup, attorneys involved                         |
| Telecom Italia (IAC, IAC)               | 6.0           | Flugplatz      | Long shot, now in \$6M - \$20M range                                 |
| <b>Total Secondary Big Hitters</b>      | <b>295.0</b>  |                |  |
| <b>TOTAL Q1 FORECAST</b>                | <b>415.8</b>  |                |  |
| <b>Q1 TARGET - (TBD)</b>                | <b>550.0</b>  |                |  |
| <b>VARIANCE TO Q1 TARGET</b>            | <b>-134.2</b> |                |  |
| <b>RISK TO COMPLETED/PRIMARY</b>        |               |                |  |
| EPK                                     | 15            |                |  |
| Sita Equant SAC Circuit                 | 3.4           |                |  |
| <b>Total</b>                            | <b>18.4</b>   |                |  |
| <b>FORECAST WITH RISK</b>               | <b>430.9</b>  |                |  |
| <b>FILL GAP</b>                         |               |                |  |
| 360 Networks (EAC)                      | 100           |                |  |
| Centennial                              | 10            |                |  |
| <b>REVERSED FORECAST</b>                | <b>540.9</b>  |                |  |
| Foreign Exchange                        | -12           |                |  |
| OARM Upside                             | 3             |                |  |
| <b>TOTAL WITH ADJUSTMENTS</b>           | <b>531.9</b>  |                |  |

**Purchase Summary**

- \$100M Qwest: Optical Entrance, Waves, DF on PEG to Prague, Vienna
- \$7M Comsat: Co-Lo, infrastructure in SA
- \$15M EPK: waves connecting cable stations in SA (RISK)
- \$35M Ebone: 10 pig wave FAT, metro, co-Lo Europe
- \$23M Energia: DF Spain, SA, carrier term, capacity
- \$100-\$150M 360: Atlantic capacity, capacity in Canada
- \$3M Centennial: \$10M commitment over 3 years, 8Htehouse PRDR
- \$287M-\$332M TOTAL**

MINUTES of the Meeting of the Executive  
Committee of the Board of Directors of  
**Global Crossing Ltd.**, held via telephone  
on the 30<sup>th</sup> day of March, 2001 at 4:00 p.m.,  
Pacific Time.

Present:  
Messrs. Gary Winnick, Chairman  
Thomas J. Casey  
William E. Conway, Jr.

Absent:  
Mr. Lodwick M. Cook

In attendance:  
Messrs. James Gorton  
S. Wallace Dawson  
Patrick Joggerst  
Mitchell Sussis  
David Walsh

Mr. Walsh described the proposed Centennial transaction, explaining that the transaction essentially represents an extension of Mid-Atlantic Crossing to Puerto Rico and the Dominican Republic, with Centennial serving as the anchor tenant. Discussion ensued regarding the timing of the network build, the assumptions used in the financial model, potential competitors in the region and the creditworthiness of Centennial. Upon motion duly made, seconded and unanimously carried by those members of the Committee present, the proposed Centennial transaction was approved in substantially the form presented at the meeting.

Mr. Joggerst described the proposed transaction with 360networks, explaining that the transaction would mitigate against a potential shortfall in Atlantic capacity. Mr. Joggerst described some of the advantages of the proposed transaction, including route diversity, low cost and faster time to market. Discussion ensued.

Mr. Gorton led a detailed discussion of the risks associated with 360networks' financial instability. Mr. Gorton described the measures the Company proposes to take to mitigate those risks, including through the allocation of \$100 million of the purchase price to existing North American capacity that can be ported back to 360networks when 360networks provisions the full amount of Atlantic capacity being purchased.

Messrs. Dawson, Gorton, Joggerst, Sussis and Walsh left the meeting, after which the Committee met in executive session. Discussion ensued, after which the proposed 360networks transaction was approved in substantially the form presented at the meeting

There being no further business to come before the meeting, it was duly adjourned.

---

Gary Winnick  
Chairman

---

Mitchell Sussis  
Secretary



**CONFIDENTIAL**

**From:** robert barrett  
**To:** DAVID CAREY  
**CC:** Joseph Clayton; Jim Demitrius; DAVID CAREY  
**BCC:**  
**Subject:** 1Q Reciprocal Deals{F}{F}  
**Date:** 3/14/2001 5:57:43 AM

**Attachments:**  
 robert\_barrett.vcf

Joe  
 I concur with Dave.

To be a little more specific about the cash flow situation:  
 These swaps will, in general, require capital to be spent that was not anticipated in the capital budget. Further, they do not usually offset capital expansion programs that are in the capital budget. So, there is new capital to be expended, while the existing capital needs to also be expended to achieve the revenue plan. These are not incremental revenue over the revenue plan, but a means to meet it. Therefore, there is extra capital required without extra revenue, something the board may not see as desirable.

I spoke with Joe Perrone about this. He understands the issues. He has instituted what he hopes is a rigorous business case process to assure that these make sense.

In Wally's staff meeting yesterday, we discussed this. Wally also fully understands the implications. He has instructed his team that they are not to assume that incremental capital is available and that we are therefore operating on the original capital plan.

Of course, some of these might make good strategic sense from a network diversity perspective, if not to expand network reach. The timing and the urgency with which they are being pursued in worrisome.  
 Bob

DAVID CAREY wrote:

> Joe,  
 >  
 > the answer is yes - there are selected assets that we have identified. A  
 > shopping list has been developed that has been shared with the sales teams and  
 > we are actively engaged in several discussions right now. Most of these buys  
 > however, were not specifically contemplated in the capital budget and if we  
 > make a decision to proceed we will have a "funding" issue to resolve.  
 >  
 > second, there has been alot of talk about doing large strategic deals with

> counterparties such as L3, Qwest and others. the range of these deals have  
> been \$100 to \$500 million and involve things such as purchasing a conduit on  
> L3's nationwide network. Strategically these things may make sense but, timing  
> and funding may not from a network development priority sense. I was in  
> Madison yesterday and spent some time with Wally Dawson on this topic. I have  
> been asked to use my relationship with L3 to explore deals of this type. Before  
> I engage them I want to insure that we are collectively together on our desire  
> and ability to be serious about this. I don't think we want to get into it and  
> then stop "we were just exploring or pretending".  
>  
> I am also extremely uncomfortable on how pervasive this reciprocal strategy has  
> become. my observation is that our top carrier sales people are spending as  
> much time selling our own network people the services of others rather than  
> finding new customers and opportunities. it is approaching a dysfunctional  
> situation.  
>  
> I have attached the network buy listing that has been developed with NA  
> participation for your perusal. it will just give you a feel for the types of  
> things that make sense to us in the intermediate term. there are other creative  
> ideas we are exploring in the access area like buying access capacity from the  
> USW LEC on an Capacity IRU rather than the conventional method. This allows us  
> to reduce access expense and reflect it on the P&L as depreciation thereby  
> increasing EBITDA. There are risks associated with this concept. Jim Dole  
> has been intimately involved.  
>  
> i'll be at a family funeral today but will be on my cell phone while driving to  
> and from there if you want to discuss further. 233-4600. dave  
>  
> dave  
>  
> Joseph Clayton wrote:  
>  
>> Based upon your knowledge, do we need to do these reciprocal deals in  
>> North America?  
>>  
>> J.P.C.  
>>  
>> ----- Original Message -----  
>> Subject: 1Q Reciprocal Deals  
>> Date: Tue, 13 Mar 2001 12:00:49 -0500  
>> From: "Wright, Robin" <RWright@GlobalCrossing.com>  
>> To: "GRIVNER, CARL" <carl\_grivner@GlobalCrossing.com>,"Calis,  
>> Peter" <PCalis@GlobalCrossing.com>,"Clayton,  
>> Joseph" <joseph\_clayton@GlobalCrossing.com>,"Coghill,  
>> Michael" <michael\_coghill@GlobalCrossing.com>,"Guzman,  
>> Joseph" <JGuzman@GlobalCrossing.com>,"Rios, Jose"  
>> <JARios@GlobalCrossing.com>,"Miller, Dale" <DMiller@GlobalCrossing.com>  
>> CC: "Joggerst, Patrick" <PJoggerst@GlobalCrossing.com>,"Fitzpatrick,  
>> Brian" <brian\_fitzpatrick@GlobalCrossing.com>,"Barker, Charles"  
>> <charles\_barker@GlobalCrossing.com>,"Thieme,

>> Doug"<douglas\_thieme@GlobalCrossing.com>,"Walsh,  
>> David"<David.Walsh@GlobalCrossing.com>,"Dawson, S.  
>> Wallace"<SDawson@GlobalCrossing.com>  
>>  
>> I thought I'd check in with the regional heads and respective network  
>> gurus  
>> about the reciprocal deals on the table for this quarter. Mike, Dale  
>> and  
>> Peter have been fully engaged in these discussions, but a request from  
>> Qwest  
>> brings up a question about process/ and I need your guidance.  
>>  
>> Right now it looks like we'll need to make network purchases in the  
>> neighborhood of \$250M-\$350M in order to meet the revenue target. The  
>> high  
>> level view is as follows:  
>> \* Qwest: \$100M - In NA wavelengths (long haul and metro), co-lo,  
>> potentially some backhaul in the US; In Europe, potentially some  
>> backhaul.  
>> Apparently Qwest is on track to meet their quarterly numbers, but  
>> KPN/Qwest  
>> is struggling. They would like us to allocate \$25M of the \$100M for  
>> purchases in Europe.  
>> \* SingTel: \$24-\$80M capacity to India in i2I  
>> \* Ebone: \$50M, AC1/2 wavelength and some capacity, co-lo in Europe  
>> \* EPIK: \$5M (?) Metro waves connecting 4 consortium cables in South  
>> Florida, potentially other capacity services  
>> \* Emergia: \$23M in additional services and capacity, similar to last  
>> quarter, possibly dark fiber in Brazil  
>> \* Comsat: \$6.8M in co-lo, additional services/capacity  
>> \* 360: \$50-\$100M , Bucket of capacity in Canada, possible waves on  
>> AC1  
>>  
>> We are building business cases for these purchases and are being  
>> meticulous  
>> in terms of following the rules for revenue recognition. It does,  
>> however,  
>> get crazy as we approach the end of the quarter and I want to make sure  
>> we  
>> are not creating un-do havoc for the regions. Right now it looks like  
>> Europe needs to step up and commit to \$25M to KPN/Qwest in order to move  
>> the  
>> deal along. How do you want to proceed? Peter, do you want to work  
>> with us  
>> on the specifics of the deal or just step up to the commitment? Also,  
>> as  
>> a general question, do you want to be updated on the deals or how best  
>> should we be communicating as we head toward the end of the quarter?  
>>  
>> Thanks, Robin

**CONFIDENTIAL****From:** MICHAEL COGHILL**To:** S. Wallace Dawson**CC:****BCC:****Subject:** Qwest Update][F}**Date:** 3/28/2001 7:54:39 AM**Attachments:**EmbeddedMessage

Wally,

In reviewing the latest Qwest deal status I see that US domestic waves has been increased to 60m. We are now being asked to provide business cases to support this transaction. This discussion began with US waves at 15m which we could not find justification for, let alone 60m. We will be factual in our estimation of the value or usefulness of these assets but in good conscience cannot pretend to develop a business case that justifies this transaction, but rather one that will show our economic risk.

Wally, the team is committed to getting these deals done and utilizing the assets as best we can. We have been engaged in developing terms and conditions and have given guidance on preferred assets but we are not an equal partner in negotiating these deals.

Mike

**CONFIDENTIAL**

**From:** Fitzpatrick, Brian  
**To:** Walsh, David; Joggerst, Patrick; GRIVNER, CARL; Clayton, Joseph; Legere, John; Rios, Jose Antonio; Barker, Charles  
**CC:**  
**BCC:**  
**Subject:** EOY Carrier Forecast update 08/05/01  
**Date:** 5/8/2001 7:40:48 AM  
**Attachments:**

---

D. Walsh-  
 C. Grivner-  
 J. Clayton-  
 JA. Rios-  
 J. Legere-

Re: Early Warning

In an effort to ensure we are all looking at, and talking from the same data points Patrick and I have compiled the following, revised global carrier, end of year, cash revenue forecast.

Given the dramatic downturn in the capacity markets throughout all regions of the world we currently foresee a potential gap of approx. \$750M.

Region 05/01 EOY Forecast 2001 EOY Plan Variance

---

N. America \$2.0B \$2.3B (\$300M)  
 UK/Europe \$805M \$1.174B (\$368M)  
 L. America \$250M \$333 (\$88M)  
 Asia \$278M \$278M -

---

Total identified (Gap) (\$756M)

Given this data we have begun aggressive internal discussions with each of the regional carrier teams to develop and execute upon region specific recovery strategies.

The cause of the gap seems to be universal. Per unit pricing has fallen 2-3X what anyone originally projected. Everyone of our current & targeted capacity customers have dramatically reduced their 2001 capital budgets. The ISP/ASP markets have virtually dried-up. Many of our larger growth customers from 2000 have recently, or are on the verge of declaring bankruptcy (i.e. Viatel, Teligent, GTS, etc.).

We will provide you our recovery strategies by region within the next ten (10) days.

Brian

**CONFIDENTIAL**

**From:** Gutierrez, Matthew  
**To:** Alavanja, Peter T.; Tingley, Jon B.; Dawson, S. Wallace; Mondello, Richard  
**CC:** Yaremko, Robert  
**BCC:**  
**Subject:** Update on 1st quarter capacity purchases{F}  
**Date:** 5/11/2001 8:59:12 AM  
**Attachments:**

---

Attached for your use and review is a summary of the 1st quarter deals from Robert which I thought you would find useful. Jon/Pete would it be appropriate to use the Monday sales call you referenced as a forum to address the status of discussions with Qwest to exchange the NA long haul waves for Local Access IRU's and confirm we are remarketing the Ebone capacity.

Matt

-----Original Message-----

**From:** Yaremko, Robert  
**Sent:** Thursday, May 10, 2001 5:38 AM  
**To:** Gutierrez, Matthew; Rossi, Kirk  
**Cc:** Perrone, Joseph P  
**Subject:** RE: Update on 1st quarter capacity purchases

Matt,

Here's my understanding of the integration/remarketing of our purchases from Q1.

360 Networks:

It's my understanding that we do not want to integrate/use the \$100M NA wave purchases from 360 Networks. The only reason we entered into this agreement was for security purposes in case 360 Networks does not complete the upgrade of the Atlantic Network and goes bankrupt. The plan is once the Atlantic Network is upgraded we will port the \$100M deposit on the NA purchases to the Atlantic purchase. So instead of having to make a \$200M payment to 360 Networks for the Atlantic upgrade we will pay \$100M (\$200M remaining to be paid less \$100M for exchange of NA for Atlantic capacity).

Qwest:

Similar situation with Qwest. The \$60M payment to Qwest was allocated against NA long haul waves. We allocated it to the waves for Qwests revenue recognition purposes. What we want to purchase is local access IRU's. We have a side letter to the agreement that allows us to exchange the long haul waves for ducts, dark fiber, or local access IRU's. The reason we want the local access IRU's is because we currently have short term leases with Qwest and by converting them to IRU's

(capital leases) we can reduce our cost of access.

Ebone:

For Ebone we definitely want to remarket.

Regarding the impairment issue I think we need to check the market numbers again and make sure we are comparing similar products. I looked at the fair value prior to signing the agreements to make sure there was no impairment and the business case did not disclose any impairment. Based on discussion with Al Digabrial a single wave is \$8-11M POP - POP NY - London without any prepaid maintenance (to go to Paris would be a 10 -15% premium. What we have purchase from Ebone is:

- 1) Wave 1 - NY (POP) - London (Prem) including prepaid maintenance
- 2) Wave 2 - NY (Prem) - Paris (POP) including prepaid maintenance

The pricing indicated to me was the split between capacity and prepaid oa&m should be as follow:

21.5M Capacity  
7.5M prepaid oa&m

Based on POP - POP and Prem numbers I was give the range of the price for the capacity including local loops would be from 23M - 29M. We'll need to review those numbers again to see if any impairment exists.

I think there is 3 things we need to follow up regarding these purchases:

- 1) Confirm that we are not activating any of the NA wave capacity purchased from 360 if we do not legitimately need it as we will use this as our payment against the Atlantic Upgrade.
- 2) Confirm that the commercial team is following up its discussions with Qwest to exchange the NA long haul waves for Local Access IRU's.
- 3) Confirm we are remarketing the Ebone capacity and review the net realizable value again.

Let me know what you think and If you want me to follow up any of these issues let me know.

Robert

-----Original Message-----

From: Gutierrez, Matthew  
Sent: 09 May 2001 17:32  
To: Rossi, Kirk; Yaremko, Robert  
Cc: Perrone, Joseph P  
Subject: Update on 1st quarter capacity purchases  
Matt

10157500;10157500;10157500

## CONFIDENTIAL

**From:** Joggerst, Patrick  
**To:** Walsh, David; Fitzpatrick, Brian; Barker, Charles  
**CC:** Wright, Robin; Yaremko, Robert; Hasenstab, Jennifer; Thompson, Paget  
**BCC:**  
**Subject:** NOTE -- More details on new opportunities to supplement the sales funnel  
**Date:** 5/15/2001 12:24:47 AM

---

**Attachments:**  
 2nd Quarter Carrier Rev with detail.doc

---

Folks:  
 Attached is my QUICK summary of new deals that were briefly discussed on today's sales call -- an earlier version was sent to David that DID NOT HAVE THE DETAIL in italics. Please feel free to add additional color to my synopsis of these comments...  
 Thanks,  
 Patrick



DAVID:

THE FOLLOWING IS THE SAME DOC THAT I SENT TO YOU WITH SOME  
DETAIL FOR EACH OF THE "NEW OPPORTUNITIES" – COMMENTS IN  
ITALICS...

SEE YOU TOMORROW.

PATRICK

May 14, 2001

D. Walsh

Subject: Second Quarter Carrier Revenue

David,

As you know, the carrier team has been asked to close  
\$650M of IRU business in order to support the overall number of Global Crossing this  
quarter. We have surveyed each region to see what may be able to add to the funnel to  
meet the number.

When we look at the primary targets, we have \$313M of projected revenue. In secondary  
targets we have \$211M. These secondary targets are more speculative; we close normally  
25% of these targets, so we can project getting roughly \$52M from these opportunities.  
This brings us to a projected total of \$365 – leaving a gap of \$286M.

The following are the additional opportunities that we are working to meet the overall  
number. As you can see, we need to close a large number of these sales in order to meet  
the \$650M target:

| Customer: | Low Range: | High Range: |
|-----------|------------|-------------|
| Enron     | 100M       | 250M        |

*I think that you know this in great detail than I do – Brian and I will have a call with  
Chip and Tony Sgroi to review this detail at 11 am tomorrow – will send more detail  
then.*

|                |     |     |
|----------------|-----|-----|
| Telecom Italia | 40M | 50M |
|----------------|-----|-----|

*This may be a real long shot -- it reflects additional payments by TI if we get agreement  
on a solution in the Caribbean to unwind the co-build, and have them agree to a large  
payment for multiple 10 Gb/s waves from St. Croix to Miami. We will know if this is  
feasible after this week's meetings scheduled for Wed-Fri in New York*

|          |     |     |
|----------|-----|-----|
| Velocita | 40M | 50M |
|----------|-----|-----|

*This is Bob Annunziata's new company (formerly known as pfnet). They want this to be a reciprocal deal – what they want us to buy is network in North America along the AT&T ROW (definitely different from our ROW) – willing to talk about conduit and/or dark fiber – need our network folks to explore with an open mind. Pete Juroe asked lots of questions about the strength of their financing – he is much more positive about Velocita than other new entrants given current market conditions.*

|          |    |     |
|----------|----|-----|
| Telelobe | 0M | 20M |
|----------|----|-----|

*We will try to get what we can out of a capital budget program that is shrinking – we are meeting with Stu Verge tomorrow and will know more following that meeting at 4 pm.*

|      |    |     |
|------|----|-----|
| DTAG | 0M | 20M |
|------|----|-----|

*This is a placeholder – they don't have their capacity budget finalized – they would need a GREAT deal to be motivated to accelerate their budgeting.*

|              |    |     |
|--------------|----|-----|
| China NetCom | 0M | 65M |
|--------------|----|-----|

*Ted Higase mentioned that the AGC business development team (Anthony Christie) was working this deal which would get us immediate capacity into greater China – this \$65M would be a reciprocal spend that we would require of them on our net – not clear how much we could get up front, so it is shown as 0-65.*

|               |    |     |
|---------------|----|-----|
| IDT/Net2Phone | 0M | 10M |
|---------------|----|-----|

*The funnel shows \$20M – if all goes well it could be a \$30M deal, thus the “upscope” on the funnel report.*

|            |           |            |
|------------|-----------|------------|
| Allegiance | <u>0M</u> | <u>10M</u> |
|------------|-----------|------------|

*New deal that is looking okay – needs to be developed/nurtured to get it over the goal line for this quarter.*

|              |             |             |
|--------------|-------------|-------------|
| <b>Total</b> | <u>180M</u> | <u>475M</u> |
|--------------|-------------|-------------|

I am running to a meeting with WorldCom (another opportunity) – I will send you more detail on each of these possible deals this afternoon.

Thanks,  
Patrick

**CONFIDENTIAL**

**From:** Rossi, Kirk  
**To:** Perrone, Joseph P  
**CC:**  
**BCC:**  
**Subject:** Debt covenants and capacity sales{F}  
**Date:** 5/17/2001 9:23:16 AM

**Attachments:**

Sr. Secured RG Covenant New Forecast\_05.16.01.xls  
Sr. Secured RG Covenant New Forecast\_05.11.01.xls

What a diatribe! This is the definition of panic....

-----Original Message-----

**From:** Millner, Hank  
**Sent:** Wednesday, May 16, 2001 7:35 PM  
**To:** Gorton, Jim; Dullabh, Susan; Klapper, Marty; Tobias, Glenn; Rossi, Kirk  
**Cc:** Perrone, Joseph P; Cohrs, Dan  
**Subject:** FW: Debt covenants and capacity sales

I wanted to make sure you were aware of the following situation. The emails below refer to the very serious potential impact of first quarter EBITDA within the GX Restricted Group falling so substantially below plan (due to the company's reliance on EBITDA from AGC which is Unrestricted for purposes of the bank facility). While we are awaiting Restricted Group financials from Accounting for year-end 2000 and first quarter 2001, Structured Finance has attempted to back into Restricted Group EBITDA numbers based on information contained in the Global Crossing and Asia Global Crossing earnings releases. Based on this analysis (attached below), the model shows minimal compliance with the ratio of Debt/EBITDA. The analysis is based on imprecise EBITDA estimates, and may well underestimate the amount of debt in the Restricted Group. While the model accurately reflects our debt issued to third parties (i.e. bank facility, senior notes, Frontier debt), we rely upon information from Accounting regarding Capital Lease Obligations and from Treasury regarding intercompany loans from Unrestricted Subsidiaries to the Restricted Group, which we are still awaiting. For the time being, we are using historical balances as of September 30, 2000 for these categories, but additional debt from these categories could be significant and result in a covenant violation.

The consequences of violating this financial covenant are SEVERE and the time period in which to fix it is SHORT:

- \* First Quarter financial statements are due to the banks on May 30 (2 weeks)
- \* A violation would be an immediate Event of Default with no cure period
- \* The Event of Default may require a press release
- \* Global Crossing would immediately lose the ability to borrow under the facility to fund operations
- \* The lenders will either terminate their commitments under the facility, make the loans immediately due and payable, or both
- \* Should the lenders accelerate the loans, there would be a cross-acceleration of Global Crossing's

file://D:\GX-ELE-CD1a\EMAIL\0000000000000001\0000000000AF03F5.html

6/23/02

\$3.8 billion of senior notes.

I would not want to try to refinance \$6 billion in this or any other market conditions. I think this situation requires immediate attention. Dan has suggested that I work with Joe Perrone.

As I see it, we have two options:

- \* Make adjustments to the Restricted Group to produce financial statements that we are confident will result in compliance with the ratio, or
- \* Get a waiver from the bank group

There are just a few levers that we can pull to improve the ratio of Debt/EBITDA. These include:

- \* Modifying the Restricted Group (effective March 31) to include positive EBITDA subsidiaries that are currently Unrestricted
- \* Modifying the Restricted Group (effective March 31) to exclude negative EBITDA contributors that are currently Restricted
- \* Reducing debt within the Restricted Group (effective March 31) by clearing any intercompany loans from Unrestricted subs to Restricted subs
- \* Where possible, classifying capital leases as operating leases

With respect to a waiver from the banks, we would need to decide quickly as it will take time to execute. It may be costly, and the story may get picked up by the financial press.

We need to decide what approach to take, and make sure all resources are made available to remedy the situation.

-----Original Message-----

From: Millner, Hank  
Sent: Tuesday, May 15, 2001 8:41 PM  
To: Perrone, Joseph P  
Cc: Cohrs, Dan  
Subject: FW: Debt covenants and capacity sales

Joe and Dan,  
Attached is a copy of the latest financial covenant compliance forecast that Dan refers to below. While we are awaiting Restricted Group financials for year-end 2000 and first quarter 2001, Structured Finance has attempted to back into Restricted Group EBITDA numbers based on information contained in the Global Crossing and Asia Global Crossing earnings releases. As Dan mentions, our debt capacity is extremely tight. In addition to projecting minimal debt capacity going forward (\$200 million in Q3), I am particularly concerned that we are at risk of violating the leverage ratio when we deliver the 1Q01 financials in 15 days. Our forecast shows minimal clearance (4.71 ratio vs. 4.75 covenant) but is based on imprecise estimates. Violating a financial covenant is an immediate Event of Default under the Credit Agreement, with no cure period. I would like to have some in Joe's group review the assumptions in the attached file (the first three worksheet tabs are the

most relevant). There are certain modifications to the Restricted Group that we could investigate that might give us comfort the will comply with the ratio. Alternatively, we will need to seek a waiver from the banks. Please call to discuss.

Thanks,  
Hank

-----Original Message-----

From: Cohrs, Dan  
Sent: Saturday, May 12, 2001 5:10 PM  
To: Walsh, Dave; Casey, Tom  
Cc: Dullabh, Susan; Gorton, Jim; Millner, Hank; Perrone, Joseph P  
Subject: Debt covenantsa and capacity sales

Our current projection, given 2 billion of Adj. EBITDA for 2001, and assuming the guidance of AGC, is that we will be tight on our bank covenant as we go through this year. The binding covenant is the ratio of total debt to Adj EBITDA. The current test is 4.75, and that drops to 4.0 soon. The test applies to the Global Crossing restricted group (GXRG), which excludes AGC and Racal.

This means that we need to make our numbers in the GXRG.

The results for the first quarter seriously changed the outlook on this, because of the incremental cap ex in the GXRG, and the mix of Adj EBITDA between AGC and GXRG. We effectively used up around \$1B of debt capacity:

Adj EBITDA at AGC: \$239M

"Big Deal" EBITDA at AGC \$270M (Q and TSIX)

AGC EBITDA over plan \$200M (rough estimate for illustration: this is also GXRG EBITDA under plan)

x 4 (covenant) \$800M

Incremental Cap Ex GXRG \$385M

"missing" debt capacity for GXRG \$1185M

Net: As we plan our IRU deals this year, relying on sales on Asian systems has a big effect on our bank covenants.

## CONFIDENTIAL

**From:** Gorton, Jim  
**To:** Casey, Tom  
**CC:**  
**BCC:**  
**Subject:** Sales Comp{F}  
**Date:** 6/1/2001 12:48:38 PM  
**Attachments:**

---

Incentives, Tom. Not that you do not pay them, you just do not pay them as much, because one is more valuable to the Company than the other. I am focusing on our cash flow and our covenant defaults in our loan agreements. Whether or not those are legal issues, I do not know, but I do know that they are vitally important. Jim

-----Original Message-----

**From:** Casey, Tom  
**Sent:** Thursday, May 31, 2001 9:26 PM  
**To:** Gorton, Jim  
**Subject:** RE: Sales Comp

Let me make sure I understand your position here: if we don't get these deals, we miss our quarters; if we don't incentivize the sales force, they won't do these deals. Therefore, unless you have evidence that there are \$600m of non reciprocal deals out there this quarter (and, of course, increasing amounts in all future quarters) that our sales force is ignoring (out of spite?), we'll change the comp plan in a manner that is almost assured to cause us to lose more than 50% of our IRU business. Do I have that right? If so, please focus on legal issues henceforth. Thanks for sharing.

inal Message-----

**From:** Gorton, Jim  
**Sent:** Thursday, May 31, 2001 3:50 PM  
**To:** Casey, Tom; Cohrs, Dan; Walsh, David; Comparin, John; Perrone, Joseph P  
**Subject:** Sales Comp

Are we paying our sales people the same if they do a "reciprocal deal" (swap) as when they make a straight sale? Of course, we should not be--we have to find a way to incentivize sales people not to seek the easy way out. It is just too critical an issue to our cash flow. I also hope we can get a sales comp structure that is margin oriented as well. Jim

**CONFIDENTIAL**

**From:** Fitzpatrick, Brian  
**To:** Walsh, David  
**CC:**  
**BCC:**  
**Subject:** The Quarter - "All Hands on Deck"{F}  
**Date:** 6/6/2001 12:06:13 AM

**Attachments:**

I will provide as defined below..... I believe I will miss you this AM in Brussels (mobile #+44 7770 960 345). I will be leaving Brussels this AM to meet w/ France telecom this PM in Paris. I will call you this afternoon to discuss the bullets below.

Brian  
 06.06.01

-----Original Message-----

**From:** Walsh, David  
**Sent:** Wednesday, June 06, 2001 8:00 AM  
**To:** Fitzpatrick, Brian; Joggerst, Patrick  
**Cc:** Casey, Tom  
**Subject:** The Quarter - "All Hands on Deck"

Patrick and Brian;

Tom will be traveling back to Beverly Hills tomorrow to update Gary and Lod on the outlook for the quarter. Right after today's call could you prepare the update. I would like the report to be organized as follows:

1) Completed - contractually obligated - other signed deals - primary targets  
 (\$250 - \$300 million)

2) Strategic / Big Deals  
 \* Worldcom (size???)  
 \* Velocita (\$50 - \$100 m)  
 \* Emergia (\$80 m)  
 \* China Netcom (\$50 m)  
 \* Teleglobe (???)  
 \* Flag (???)  
 \* Qwest (\$73m)

3) Total amount of the secondary targets with an estimate of what we think we can close - I would include the new Enron deal, The C&W-OEM prepay, The DTAG option, Telecom NewZealand, etc.

Please provide a brief description of each opportunity as well as the challenges we face in closing the business this quarter. Also list who the executive sponsor is for each deal.

We could also use some help from Gary and Tom on the Paytech deal. We need to find a way to bring that deal forward into this quarter. Could you also see how Barry Mc. and Peter L. is making out on the El Paso opportunity. We could probably use Lod's help here. These guys are traders - they could move fast. They have the money and the need - they claim to have a deep network in Texas - we could use their network in that area. Chip is working on our current spend. I will be presenting at the European Retail Sales Meeting and will not be able to attend the call today. Send me a copy of the report before you forward to Tom, I would like to review it first.

We might also want to include some color on the market. Tom can decide what he wants to include from that perspective.

David



**CONFIDENTIAL**

**From:** Joggerst, Patrick  
**To:** Walsh, David; Wright, Robin; Barker, Charles; Sgroi, Tony; Maccheyne, Barry; Rydzynski, Todd; Winkler, Wesley; Gorton, Jim; Alavanja, Peter T.; Casey, Tom; Ward, Mateo D.; BECCE, JOE; Fitzpatrick, Brian; GRIVNER, CARL  
**CC:**  
**BCC:**  
**Subject:** 2 Quarter deals -- Super sizing  
**Date:** 6/25/2001 12:26:18 PM

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**Attachments:**

Quick update on Epik, Velocita, Emergia and Enron:

**EPIK:**

I spoke with Wes Winkler -- he and Tim Gaffney are with the Epik folks and are working toward a flexible basket of bandwidth deal for \$40M (we projected \$10-15M). This is reciprocal.

**VELOCITA:**

I left another message with Buddy Pickle re: super sizing the Velocita deal -- no message back. I got a hold of Bob Annunziata (we will see him tomorrow at their office) -- he said that he asked Buddy to consider the bigger deal (\$50M+ -- we were expecting ~\$25M). This deal will be reciprocal.

**EMERGIA/TELEFONICA:**

Still trying to push Emergia/Telefonica for \$60M -- they want ZERO this quarter. I asked E. Carride to consider this -- Jose Antonio will meet with Alierta on Wed to press for it (Alierta is the #1 in Telefonica world-wide).

**ENRON:**

We still need to find ~\$100M out of Enron -- Tony Sgroi, Todd R. and Chip are leading this one with David W. We may try to get 1-2 fiber pairs on their net -- Brian F. confirms that this is a requirement for the DTAG win-back for their North American network, which is looking positive!

More later.....

Patrick

**Cocoziello, Dorothy A.**

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**From:** Joggerst, Patrick  
**Sent:** Thursday, June 28, 2001 2:26 PM  
**To:** Dawson, S. Wallace; Cocoziello, Dorothy A.; Thompson, Paget  
**Cc:** Singhi, Mool; Kale, Sandra; Wright, Robin; Young, Chris (AGC)  
**Subject:** REVENUE OPPORTUNITY -- WE NEED IT!

Wally-- Urgent update -- NEW FLAG DEAL!!!!!!

They want to accelerate their purchase of Latin American capacity -- they want it next quarter (they will buy now about \$30M - good margins).

In order for us to get this cash THIS QUARTER -- THEY ARE REQUIRING that we purchase \$40M from them. For the business case we are trying to price up \$40M worth of capacity -- at present, we are looking at STM-1's from London to:

- Egypt (city to city);
  - Jordan (option);
  - Saudia Arabia (option -- need to know where)
  - India (need to know backhaul)
- They agreed to 5% OA&M and will pay 5% OA&M to us...

More later .. Mool / Sandy are helping with business case elements....

Ugly -- yes, we need it!!! (\*\$30M more)

Patrick

## CONFIDENTIAL

From: Gorton, Jim  
To: Winnick, Gary  
CC:  
BCC:  
Subject: 2Q01 IRU Big Deal Funnel - URGENT/PLEASE READ(F)  
Date: 6/19/2001 5:12:26 PM

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Attachments:  
[2Q01 IRU Big Deal Funnel.xls](#)

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Gary, we have asked Patrick Joggerst to get us a list of target customers for our Board members to help us on (at your suggestion). Given that we are at the end of the quarter, Patrick rightly believes that the only deals that we should focus on at this critical moment are the IRU deals on the table. The attachment below has the big deals the Company is working on. The chart is constantly updated, so it is probably wise to check in with Patrick or Walsh before a call is actually made to see the current status. jim

-----Original Message-----

From: Joggerst, Patrick  
Sent: Friday, June 15, 2001 12:52 PM  
To: Gorton, Jim; Walsh, David; Cohen, Jeff; Wright, Robin; Fitzpatrick, Brian  
Subject: 2Q01 IRU Big Deal Funnel - URGENT/PLEASE READ  
Importance: High

Jeff called me to relay the message from Jim G. that the Office of the Chairman and the GC Board want to become engaged to help us win any and all deals

GX-HEC-47466

(after the press on NTL and Level3/FT deal -- as you know the L3 deal was a one yr lease to provide restoration to our ckt from HK to Tokyo, not a mega-deal in Asia).

With the end of the qtr upon us, Jeff and I agreed that for the next 2 weeks the best support we could get would be on the deals required to close the quarter. Attached is a BRIEF matrix of the large IRU deals that we have in the mix to help make the \$650M target. This spreadsheet include both a low and high for each deal; as well as two scenarios that COULD WITH A GREAT DEAL OF EFFORT get us to our target. We change this on an hourly basis. I have added a column to represent my initial thought on the senior executive support that may be effective. If there is a blank -- we are open to suggestions.

Please get you comments to me ASAP so that I can get this to David/Jim for Monday am.

Thanks,  
Patrick

<<2Q01 IRU Big Deal Funnel.xls>>

GX-HEC-47467

## 2001 IRU BIG DEAL FUNNEL

|                             | Low           | High          | Scenario 1    | Scenario 2    | Support Requirements                            |
|-----------------------------|---------------|---------------|---------------|---------------|---|
| <u>Completed/Obligated:</u> | 34.99         | 34.99         | 34.99         | 34.99         |   |
| <u>Contracted -- Risk:</u>  |               |               |               |               |   |
| Centennial                  | 15            | 15            | 15            | 15            | Must get final deal signed - Scanlon to support |
| Telecom Italia/LatAm Naut   | 177           | 191.64        | 190           | 190           | Must get as much as possible!                   |
| <u>Targets:</u>             |               |               |               |               |   |
| TN2i                        | 13.5          | 13.5          | 13.5          | 13.5          | Okay  |
| Telia                       | 5.6           | 5.6           | 5.6           | 5.6           | Okay  |
| Velocita                    | 25            | 50            | 50            | 50            | Jim G. to talk to Bob A.                        |
| C&W (pre-pym)               | 0             | 20            | 10            | 20            | Tom to discuss with Graham                      |
| DTAG (AC-2, downpym NoAm)   | 10            | 30            | 20            | 20            |   |
| Ennergia                    | 40            | 80            | 80            | 80            | Jose Rios to talk to Alieria                    |
| FLAG                        | 30            | 35            | 35            | 35            | Okay  |
| Net2Phone                   | 20            | 30            | 20            | 30            | Gary/Tom to talk to Baller/Jonas                |
| Paelec                      | 0             | 10            | 10            | 10            | Gary/Tom to talk to Arunis                      |
| Qwest                       | 70            | 70            | 70            | 70            | Okay  |
| ChinaNetcom                 | 0             | 70            | 70            | 0             | Legere managing                                 |
| Concert                     | 0             | 35            | 0             | 35            | Tom/Dorman conversation                         |
| Irish Gov't                 | 0             | 18            | 20            | 20            | Working it local, maybe Tom talk to IDA         |
| Other small deals           | 5             | 25            | 10            | 20            | Working with regional carrier sales VPs         |
| <b>Total</b>                | <b>446.09</b> | <b>733.73</b> | <b>654.09</b> | <b>649.09</b> |   |

NOTE: THIS DOES NOT INCLUDE THE ENRON DEAL, COULD BE \$425M FOR THE QUARTER

GX-HEC-47468

**CONFIDENTIAL**

**From:** Fitzpatrick, Brian  
**To:** Joggerst, Patrick  
**CC:**  
**BCC:**  
**Subject:** CONFIDENTIAL  
**Date:** 6/28/2001 2:50:59 AM

**Attachments:**  
 Qwest 0601 Signoff.xls

P. Joggerst-

We need to make sure we are all solving for the same problem. We need the top line revenue by the close of the quarter. In order to get it we have to spend a reciprocal amount with key carriers. In this case Qwest. Our option is to spend the same amount of cash and end up with nothing. I want to make sure the three of us are 100% together regarding the fact the eastern European market (Vienna - Prague), nor the Scandinavian market (up to Helsinki) would support the numbers that are stated in the attached business case. The Euro market is crashing. No one is spending \$700M on these routes.

I feel like we (you & I) are putting our names and careers on the line supporting this type transaction without having a discussion with the other officers about what we are really doing. I'm sure there is a bigger deal/discussion taking place that we have not yet been invited to..... Let's discuss. I'm in London +44.207.904.1812.

Brian  
 28.06.01

-----Original Message-----

**From:** Longo, John  
**Sent:** Thursday, June 28, 2001 7:04 AM  
**To:** Walsh, David; Casey, Tom; Perrone, Joseph P; Cohrs, Dan; GRIVNER, CARL; Dawson, S. Wallace; Wright, Robin; Joggerst, Patrick; Fitzpatrick, Brian; Barker, Charles; Gutierrez, Matthew; Alavanja, Peter T.; Wong, Joey (Wen Hai)  
**Cc:** Manske, Patricia; Hubatsek, Julie; Covine, Virginia; Platt, Emma; Cocozziello, Dorothy A.; Buchanan, Nadine; Thompson, Paget; Cox, Lisa; Carlyon, Susan  
**Subject:** Updated business case - Qwest deal

Attached is the updated DRAFT business case for the Qwest deal. The deal consists of six components:

1. Vienna - Prague extension
2. Helsinki extension
3. TAT 14 backhaul in (France)

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Page 2 of 3

4. Southern Cross backhaul (US)
5. Frankfurt - Eschenfeld DF
6. GNO - like wavelength purchase

The case assumes the components are part of a packaged deal and only available in this bundle; therefore, the financial value of the total deal is the relevant decision factor. To provide a valid analysis, the related Q1 Qwest deal elements were incorporated and the additional network extension capital components for the network extensions have been included. To identify the total deal value, we separated the Vienna - Prague extension from the other components and analyzed it against the original business case for that extension.

This deal improves the original Vienna - Prague extension economics by \$ 5M, but the NPV for that segment remains negative \$ 36 M. The business case for all the other components (2 - 6 above) has a positive NPV of \$ 39M bringing the NPV for the overall case to positive \$3.4 M. There are considerable assumptions and risks that are outlined in the attached summary. The case needs to be updated in the morning based on validation of the Helsinki market forecast and the capital required for optronics. The current Helsinki market forecast represents the revenue required to drive a positive business case.

John

-----Original Message-----

From: Walsh, David  
 Sent: Tuesday, June 26, 2001 4:10 PM  
 To: Casey, Tom; Perrone, Joseph P; Cohrs, Dan; GRIVNER, CARL; Dawson, S. Wallace; Wright, Robin; Joggerst, Patrick; Fitzpatrick, Brian; Barker, Charles; Gutierrez, Matthew; Longo, John; Alavanja, Peter T.; Wong, Joey (Wen Hai)  
 Cc: Manske, Patricia; Hubatsek, Julie; Covine, Virginia; Platt, Emma; Cocozziello, Dorothy A.; Buchanan, Nadine; Thompson, Paget; Cox, Lisa; Carlyon, Susan  
 Subject: Conference Call

Given that we are days away from the end of the quarter and we are in various stages of negotiations and business case development, I thought it would be helpful to have a conference call Wednesday and Thursday afternoons to get everyone up to speed and expedite the approval processes. Please join us at the following times:

Wednesday: 5:00pm EST  
 Thursday: 6:30pm EST

Domestic: 1-800-232-0360  
 International: 1-303-633-6223  
 Passcode: 6022461

Thanks for your help.

David

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## CONFIDENTIAL

**From:** Casey, Tom  
**To:** Joggerst, Patrick  
**CC:**  
**BCC:**  
**Subject:** 2H '01 Forecast  
**Date:** 7/14/2001 12:48:33 PM  
**Attachments:**

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Patrick - The Carrier group is missing it's revenue numbers badly and it's forecast for the 2nd Half keeps getting worse. While I know that you mostly focus on the big IRU deals, I need you to figure out what is going on in the rest of the group and identify some specific actions that will increase the revenue over the rest of this year. If there are actions that other parts of the company need to take, be prepared to identify them. We can't do well - or even acceptably - with such a big part of the revenue base declining - and, given the US and international reach we have, combined with the financial instability and cap ex constraints of most of our competitors - I don't understand the reason for it.

I do not want to hear about how your part of the business is just going to continue to erode when we meet next week. I want to know what you guys are going to do to turn it around - starting immediately.

Forewarned is forearmed, as someone once said.



PERSONAL AND CONFIDENTIAL

August 6, 2001

Mr. James Gorton  
General Counsel  
Chief Ethics Officer  
Global Crossing, Ltd.  
360 N. Crescent Drive  
Beverly Hills, California 90210

Dear Jim:

I'm very disturbed by information I have received regarding certain recent accounting and financial reporting matters of both Global Crossing and Asia Global Crossing. I'm concerned that investors and commercial bankers may have been intentionally misled about these companies' reported Cash Revenues, Adjusted EBITDA, Net Earnings, etc. during the three quarters ended June 30, 2001.

My concerns fall into three areas:

1. Cash Revenue and Adjusted EBITDA of Global Crossing, and Proportionate Cash Revenue and Proportionate Adjusted EBITDA of Asia Global Crossing, are not measures of cash receipts or earnings and are misleading.
2. Amounts reported as Cash Revenues and Adjusted EBITDA may have been falsely inflated by 1) including amounts for which cash had not been received; and 2) structuring swaps or non-monetary exchanges of capacity as cash transactions by "round tripping" the cash.
3. Certain expense accounting matters.

Cash Revenues and Adjusted EBITDA metrics are misleading.

As you know, Global Crossing's revenues originally consisted of sales of capacity known as Indefatigable Rights of Use (IRUs). Such sales-type leases were recorded as GAAP revenue if they met the criteria for revenue recognition contained in the footnotes to the company's financial statements: 1) the purchaser obtains the right to use the capacity, which can only be suspended if the purchaser fails to pay the full purchase price or fulfill its contractual obligation, 2) the purchaser is obligated to pay OA&M costs, and 3) the segment of a system related to the capacity purchased is available for service. Capacity sales were generally for cash and circuits identified and provisioned to give the purchaser the right of use.

Effective July 1, 1999 the FASB issued FIN 43 which resulted in sales of capacity being accounted for as operating leases. Because Global Crossing continues to receive up-front cash payments for sales of capacity it now books the revenue as "deferred revenue" on

the balance sheet. To overcome the inconsistency with financial statements issued prior to July 1, 1999 the Company began focusing investor's attention on two non-GAAP measurements – "Cash Revenue" and "Adjusted EBITDA". "Cash Revenue" was defined as GAAP Revenue plus the cash portion of the change in deferred revenue. "Adjusted EBITDA" was defined as operating income (loss) plus goodwill and intangible amortization, depreciation and amortization, non-cash cost of capacity sold, stock related expense, and the cash portion of the change in deferred revenue. Readers of financial statements were told that these amounts were comparable to results of operations of prior periods. The Company told the financial community that the differences are due to revenues from IRU sales that the company would have recognized as GAAP Revenue in the period had Fin. 43 not been issued. I believe investment analysts and commercial bankers continue to define these metrics in this manner.

When Credit Lyonnais Securities recently initiated coverage on Global Crossing, Rick Grubbs noted in his assumptions that "The accounting method used for capacity IRU and dark fiber sales changed effective July 1, 1999 following the FASB issuance of "Interpretation No. 43" on real estate sales. This interpretation holds that sales-type lease accounting will no longer be appropriate for this type transaction, whereby cash can be booked as revenue in the period it is collected. Rather IRU's and dark fiber sales should be accounted for as operating leases, where up-front cash revenues are recognized as GAAP revenues over a period of time – typically over the course of 20 – 25 years." He assumed in his model that "Global Crossing will collect around \$2 billion in cash from IRU sales in 2001" and included such amounts in "Cash Revenue" and "Adjusted EBITDA". This explanation has been universally accepted by all of the financial analysts following the company. See also UBS Warburg's Credit Research Report on the Company dated June 29, 2001. Adjusted EBITDA is also used by the Company's commercial bankers to determine the amount of debt the company can service and is used in financial covenants of the company's major financing agreements.

In the quarter ended March 31, 2001 the earnings announcement headline was "Global Crossing's Pro Forma Recurring Adjusted EBITDA up 43% and Pro Forma Cash Revenue up 39% from first quarter of 2000". This is typical of other quarterly releases. Cash Revenue and Adjusted EBITDA are the primary focus of the company's financial communications.

What do these metrics mean?

1. Cash Revenue –
  - a. Is it cash? No. The underlying GAAP Revenue is on the accrual basis of accounting. To arrive at "cash" the underlying GAAP Revenue must be adjusted for changes in accounts receivable giving rise to the GAAP Revenue. Consequently "Cash Revenue" is not the measure of cash receipts it is purported to be.
  - b. Is it Revenue for the period being reported? Originally it was intended to be a measurement of GAAP Revenue as it would have been calculated prior to the issuance of Fin 43. Inasmuch as other types of future service

revenue and cash receipts from sales in prior periods may now be included in Cash Revenue it is no longer consistent with the original concept and would not be considered "Revenue" for the period.

2. Adjusted EBITDA -

- a. Earnings before Interest, Taxes, Depreciation, and Amortization (EBITDA) is a measure of cash flow earnings before certain expense items. Adjusting EBITDA for the "change in cash Deferred Revenue" from IRU sales was consistent with the original concept of Cash Revenue noted above in 1.b. This theory falls apart when "cash deferred revenues" for future services and payments from sales in prior periods are included because such revenues are not earned during the period. They will be earned when the service is provided. Furthermore, there is no consideration given to future out-of-pocket costs to perform such services. For example, Asia Global Crossing's earnings release for the quarter ended June 30, 2001 indicates that \$50.1 million in prepayments for future services are included in Cash Revenue and Adjusted EBITDA. The Company may have received a cash prepayment but it is not "Revenue" and it is not "Earnings".

The deception has been very subtle. It appears that at some point the adjustment for "change in cash deferred revenue" began to be applied literally. It no longer mattered whether the cash was due to IRU sales that previously would have been GAAP revenue in the period. The Company never explained to the financial community that these metrics included increasingly greater amounts of cash receipts for future sales and services. I don't believe the commercial banks would knowingly include such amounts in their calculations of Adjusted EBITDA for the periods. They are not "earnings" that can be used to service debt. Consequently I'm concerned about the Company's compliance with its debt covenants.

I'm concerned that these metrics have become very misleading inasmuch as they fail to measure up to the perception that they measure cash receipts cash flow earned in the period.

Concerns regarding inflated amounts of "Cash Revenue" and "Adjusted EBITDA"

During the year ended December 31, 2000 and six months ended June 30, 2001 it appears that it became more and more difficult for the Company to meet Wall Street's expectations of Cash Revenue and Adjusted EBITDA each quarter. Competition was increasing as additional cable systems became ready for service and prices of capacity continued to plummet. Customers knew if they waited until the end of the quarter they could negotiate significantly better deals. As a result I've been told that practically all of the deferred revenue transactions occurred in the last two - three days of each quarter. In many cases the routes were not identified and there was insufficient time to provision the circuits that had been identified. It appears that each quarter increasing amounts of cash deferred revenue came from transactions other than IRU sales that would not have been reported as GAAP Revenue prior to the issuance of Fin 43.

Possible examples include cash receipts from:

1. IRU sales that would not meet the criteria for revenue recognition in the period because either 1) the network is not complete, 2) the purchased capacity routing has not been designated by the purchaser, 3) the customer is not billed for OA&M, or 4) the purchased capacity has not been provisioned and therefore not available for the customers use.
2. IRU sales of prior periods.
3. Prepaid OA&M services to be performed over the 20-25 year life of the lease.
4. Prepaid telehouse rents.
5. Prepaid Conferencing services.
6. Prepaid telecommunication services.

Many of these deferred revenue items are for executory contracts for future services. The Company will incur substantial out-of-pocket expenses in fulfilling these obligations in future years. Such costs are ignored in the calculation of Adjusted EBITDA.

It also appears that many IRU sales during the first and second quarters of 2001 are conditioned upon the company having to buy capacity from the customer. It appears that certain transactions may have been structured as cash transactions rather than swaps or non-monetary exchanges to show greater amounts of Cash Revenue and Adjusted EBITDA. By having the cash change hands ("round tripped") it appears that the "sale" is generating positive cash flows. Furthermore the capital expenditure is ignored. It is a win - win for both parties to the transaction because they can each show positive "Cash Revenue" and "Adjusted EBITDA" and their cash balances remain the same. The only negative is that the "purchase" increases capital expenditures. These types of transactions must raise questions about pricing and possibly the use of the acquired capacity.

I have been told that over 80 percent of the change in cash deferred revenues in the first two quarters of 2001 resulted from swaps or non-monetary exchanges for which the cash may have been "round tripped" (There may be one transaction in the quarter ended March 31, 2001 where the gross amount of the sale transaction was included in cash deferred revenue although only the net amount of cash changed hands). In other words less than 20 percent of the change in cash deferred revenue is new cash that the company can use to pay down debt or fund operating expenses. As you know these amounts became so material in the quarters ended March 31 and June 30, 2001 that the earnings release contains language describing certain purchase commitments in the quarters.

In the second quarter earnings release it was reported that over \$1.1 billion of carrier IRU sales was reported in the first two quarters. I believe this may include other types of prepaid revenue for future services and cash receipts from sales in prior periods.

#### Concern about accounting for certain expenses

I have also been made aware of certain accounting issues regarding Company expenses that should be investigated including 1) the deferral of 1999 cost of access expenses to December 31, 2000 (and offsets); 2) the capitalization of IT Integration costs during 2000.

and 3) the capitalization of the operating lease for the Madison, New Jersey office complex in May, 2001.

Jim, this is a very complex issue that needs to be addressed. As an employee and a shareholder of Global Crossing I believe that a thorough investigation of all the facts should be undertaken and that appropriate action be taken immediately to correct any improprieties. I feel strongly that neither Dan Cohrs nor Joe Perrone should be involved in the investigation. Furthermore Joe Perrone and Arthur Andersen may have a conflict of interest inasmuch as he was the Engagement Partner on Global Crossing prior to joining the Company.

I am available to meet with you or whomever you feel is appropriate to discuss specific details regarding my concerns.

Sincerely,

Roy L. Olofson

**Manske, Patricia**

---

**From:** Walsh, David  
**Sent:** Monday, August 13, 2001 5:58 AM  
**To:** Fitzpatrick, Brian; Joggerst, Patrick; Nash, Chris  
**Cc:** Casey, Tom; Galfaso, Ines; Lukereth, Nicole; Albright, Jennifer; Hasenstab, Jennifer  
**Subject:** RE: Big Deal Battle Plan

Good idea - see you tomorrow at 8:00 am est.

David

-----  
**From:** Nash, Chris  
**Sent:** Monday, August 13, 2001 8:13 AM  
**To:** Walsh, David; Fitzpatrick, Brian; Joggerst, Patrick  
**Cc:** Casey, Tom; Galfaso, Ines; Lukereth, Nicole; Albright, Jennifer  
**Subject:** RE: Big Deal Battle Plan

Guys

I am putting three members of my team onto this between today and Thursday night (working on the "profile work" initially) assuming that the next meeting will be Friday morning Pacific time.

Any chance we could meet early tomorrow morning (8:00am Pine?) to co-ordinate, check we are not overlapping and brain-storm a bit to squeeze the juice between your effort and possible Corp Dev initiatives for the Friday meeting? Clearly one of the objectives is to document everything that is already being done and has been done.

Chris

> -----Original Message-----  
> **From:** Walsh, David  
> **Sent:** 10 August 2001 22:16  
> **To:** Fitzpatrick, Brian; Joggerst, Patrick  
> **Cc:** CookPCG, Lodwick; Casey, Tom; Huisman, Wim; Legere, John; Clayton, Joseph; Nash, Chris; Winnick, Gary; Rios, Jose Antonio; GRIVNER, CARL;  
> Webster, Rob  
> **Subject:** Big Deal Battle Plan  
>  
> Patrick and Brian;  
>  
> We need to put a battle plan together on the accounts listed below.  
> Winnick wants to make sure we are putting the right amount of energy in  
> the right places. We need an overall plan for each of the following "A"  
> accounts;  
>  
> France Telecom - assisted by Tom Casey  
> C&W - assisted by Carl Grivner and Chris Nash  
> Telephonica - assisted by Jose Antonio  
> Teleglobe - assisted by John Legere  
> Bell South - assisted by Lod Cook  
> Verizon - assisted by Tom Casey  
> Worldcom - assisted by Gary Winnick and John Legere  
> DTAG - assisted by Wim Huisman and Joe Clayton  
>  
> We need some out-of-the-box thinking and a real team effort. We also need  
> to put together a list of "B" accounts. I would like to hear your  
> thoughts on who should be included on that list. My suggestion would be  
> to include the likes of Enron, El Paso, Level3 and Telmex. Please frame

- 
- > out these accounts into simple one page deal summaries that can be used
- > for discussion purposes at our next Executive meeting.
- >
- > David
- >

URGENT -- TIME SENSITIVE -- NEED YOUR VIEWS TO SUPPORTING BIG DEAL Page 1 of 2

## CONFIDENTIAL

**From:** Joggerst, Patrick

**To:** Higase, Ted; Young, Chris (AGC); Delorimier, Jami; Urmanowicz, Thomas; Ault, John; Mercogliano, John; Stukart, Marina; Ferdinand, Christoph; Bosch, Frits; McKenna, John J. (SAC, Miami); Thieme, Douglas; Maccheyne, Barry; Gascoigne, Linda; Rydzynski, Todd; Sgroi, Tony; Altaji, Omar A.; Thompson, Paget

**CC:**

**BCC:**

**Subject:** URGENT -- TIME SENSITIVE -- NEED YOUR VIEWS TO SUPPORTING BIG DEAL PLANNING FOR SELECTED ACCOUNTS!

**Date:** 8/14/2001 8:44:21 AM

**Attachments:**

Team,

Gary Winnick, Tom Casey and David Walsh have asked Carrier sales and Corporate development to work together to come up creative deals that we can tee up for 3rd and 4th quarter this year. I need you to get back TODAY with as much specific information as possible on these accounts. The corp development team is working on the corporate overviews, strategic and non-strategic assets that they hold and their financials.

What I need each of you to do is to summarize:

1. Business that we do with this customer (what we spend with them, if anything; and what they now spend/have spent with GC)
2. Offers that we have out to them at present (as much detail as you have -- at a minimum: what are we selling, when do they need it, what it, how much revenue, any specific extenuating circumstance (like reciprocity)
3. Other creative ideas that you think might peak THEIR interest (anything that they have asked for in the recent past -- do not edit out the parts that you think GC would be interested in).
4. Who are we positioned with in the company, and your take on who the decision maker/influencers are.

The following is the list of targets that will be further sorted based on your input. I have also taken the liberty of assigning who I'd like to be primarily responsible to get this info to us, and who they need to touch base with (the "lead" person is in CAPS).

PCCW/Reach: TED, Jami

NTT: TED, Jami

Singtel: TED, Jami

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URGENT -- TIME SENSITIVE -- NEED YOUR VIEWS TO SUPPORTING BIG DEA Page 2 of 2

AT&T: TOM U., Patrick  
British Telecom: JOHN AULT, John M.  
France Telecom: MARINA, Christoph, John M., Frits, Brian  
C&W: JOHN AULT, John M., Chris  
Telefonica: JOHN MCKENNA, Patrick  
Telecom Italia: JOHN M., Patrick  
Tele globe: JAMI, Doug, Brian  
KDD: TED, Jami  
Sprint: BARRY MC, Jami  
Bell South: BARRY MC, Omar  
WorldCom: TOM U/LINDA G., John M., Patrick  
Verizon (incl. FLAG): BARRY, John M., Tony S., Brian, Jami  
DTAG: CHRISTOPH, Frits, Brian  
LEVEL 3: JAMI, Doug, Patrick  
Enron: TODD R, Tony S., Patrick

Thanks for your QUICK turnaround on this!!!  
Patrick

## CONFIDENTIAL

**From:** SHERMAN, STEVE  
**To:** Wright, Robin; Thieme, Douglas  
**CC:**  
**BCC:**  
**Subject:** KPN/Qwest Big Deal #'s and Qwest 3rd Qtr deal {F}  
**Date:** 8/24/2001 1:52:06 PM

---

**Attachments:**  
QwestSACPACMexicoPricingProposal8-1.xls

---

Robin/Doug,

With respect to the \$75million Qwest is interested in purchasing on SAC in 3rd Qtr, I have attached a copy of the most recent proposal I had submitted to Susan, Denise, and Bill Heil Qwest in the beginning of August for your convenience.

Regards,  
Steve S.

STEVE SHERMAN wrote:

Robin,

I've been pondering that question myself along with Doug for the last few weeks and aside from maybe \$1-2million in Europe, and \$5million in Dark Fiber SA-Monterrey that we could buy, its going to be tough to find \$75M in stuff .

I think we should discuss this as a team and agree on strategy, and more importantly obtain answers to the following questions; 1.) what would we buy(what, where, and how much)?[this is mostly answered already], 2) How bad does GX need this reciprocal deal with respect to revenue this quarter? , and 3) Do we want to continue on a course of dollar for dollar reciprocal deals with Qwest, when clearly GX has more of what Qwest wants to buy from us , vs GX needs/wants from Qwest?, (when or do we ever put a stake in the ground)

Doug and I have discussed this, and definitely we should all get together and agree on how to tackle this one.

Thanks,  
Steve S.

"Wright, Robin" wrote:

Susan told me Greg is ready to write a check for 75 million this quarter for capacity on SAC. What the hell are we going to buy?

-----  
Sent from my BlackBerry Wireless Handheld (www.BlackBerry.net)

file://\COMMERCE\common\O&T\global%20crossing\194%20-%20Robin%20Wright\EMAIL 5/23/02

**CONFIDENTIAL**

**From:** Tingley, Jon B.  
**To:** Walsh, David; Walsh, Bill  
**CC:**  
**BCC:**  
**Subject:** follow up from 8/24 meeting on 2001 Revenue targets{1  
**Date:** 8/30/2000 5:44:19 AM  
**Attachments:**

---

FYI.

Jon

> -----Original Message-----  
> From: Breuninger, Gary  
> Sent: Wednesday, August 30, 2000 8:35 AM  
> To: Wright, Robin; Tingley, Jon B.  
> Cc: Joggerst, Patrick; Fitzpatrick, Brian; Barker, Charles; Catherwood,  
> Glenn; Marshall, Ellen B.  
> Subject: RE: follow up from 8/24 meeting on 2001 Revenue targets  
>  
> Robin,  
>  
> Thanks for the input, as usual I don't disagree with your points. The  
> good news is that you are reading the chart right. The bad news is that  
> the number is as high you indicate. If you recall, we originally had a  
> view much more heavily weighted towards Leases for all Business Centers  
> not just North America. However, as we received input from the original  
> assessment in July, from the Product reviews in August, etc. David Walsh  
> indicated we need to still rely heavily on IRUs as we ramp the recurring  
> portion of the business.  
>  
> A few clarifying points:  
>  
> Of the \$820M, ~\$90M is OA&M which is probably light given the carryover  
> effect from 2000 (current run rate \$60M+). Of course some of that target  
> is from 2001 sales. The view for IRUs (excluding GCNA in each case)  
> ranged from <\$600M to upwards of \$700M based on the different scenarios we  
> reviewed and then this view at the \$800M plus. Just to give you the macro  
> picture, the overall bucket across GBLX ranged from 2.2B to 2.5B to this  
> view of 2.8B. The idea was to plan for the need to subsidize the  
> recurring revenue/ebitda now and not as a firesale before each quarter end  
> as we see we are not making our targets. Even with the current suggested  
> mix, we still miss recurring EBITDA and Revenue targets but meet Adj.  
> EBITDA and Cash revenue targets. The reason for these calls is to work  
> through these issues as the mix becomes more and more critical to solving

> the external metrics. In addition, given the capital constraints, we are  
 > also trying to solve for the biggest Cash benefit sales vs. Capital  
 > outlay.  
 >  
 > We are still showing a shift to leases. The discussion on our last call  
 > centered around what is the right mix. Currently, total units across all  
 > Regions is 64% IRUs to 36% Leases targeted for 2001, which compares to 72%  
 > IRUs to 28% leases for units in 2000. The revenue split is roughly 77% to  
 > 23% IRUs to leases respectively targeted for 2001 vs 84% and 16% in 2000.  
 > In addition, Wavelength and Dark fiber throw a kink into the mix as we  
 > have sold a lot of DF in PEC in 2000 and will in other regions in 2001 and  
 > Waves become more significant. These two Products tend to continue to  
 > shift the weight towards "capacity" purchases.  
 >  
 > I am not discounting your points, but what we are trying to do is  
 > proactively plan for the behavior that we now do in the last two weeks of  
 > the quarter, which to your point, only puts additional downward price  
 > pressures in the market. If we understand the requirements ahead of time  
 > by quarter, by business center I would hope that would help to alleviate  
 > the fire sales.  
 >  
 > Let's discuss in person when you have an opportunity. We clearly want  
 > targets that are achievable, drive the right P&L and capital impacts, but  
 > still NEED to MEET Wall Street expectations.  
 >  
 > Gary  
 >  
 >  
 >  
 > -----Original Message-----  
 > From: Wright, Robin  
 > Sent: Tuesday, August 29, 2000 5:41 PM  
 > To: Breuninger, Gary; Tingley, Jon B.  
 > Cc: Joggerst, Patrick; Fitzpatrick, Brian; Barker, Charles; Catherwood,  
 > Glenn; Marshall, Ellen B.  
 > Subject: RE: follow up from 8/24 meeting on 2001 Revenue targets  
 >  
 > Gary,  
 > I will be in route to a customer in DC tomorrow morning, but a couple  
 > of thoughts:  
 > \* I am very concerned about the number for IRUs here. From what I  
 > see (and maybe I'm reading this wrong), if I take out \$201M for GCNA, it  
 > leaves me around \$820M for international IRUs for North America. If I  
 > have a VERY good 4Q, I may make the original target of \$573M for 2000. I  
 > think a jump from there to \$820M is unreasonable. We need to be realistic  
 > about the fact that there will be a great deal more competition in 2001.  
 > We will not be the only game in the Atlantic and Pacific.  
 > \* We have been raising this issue since 1Q: we are seeing a migration  
 > from IRUs to leases and the implications are huge. For comparison  
 > purposes, here is the breakdown over the last year:

460004402: follow up from 8/24 meeting on 2001 Revenue targets{F}

Page 3 of 4

>  
 > << OLE Object: Microsoft Excel Worksheet >>  
 > \* As you know, prices are dropping fast and, to some extent, we are  
 > our own worst enemy. When saddled with an unreasonable revenue  
 > expectations, we do the crazy deals at the end of the quarter. This, in  
 > turn, causes prices to drop which makes it more likely that we'll need to  
 > do another deal at the end of the next quarter. Case in point: We sold  
 > an STM32 to Qwest in 1Q for \$92M. We needed the revenue, I know, but what  
 > we did was lower the price point immediately from \$6M to \$4M.  
 > \* I know that we need to step up to growth and are willing to do it.  
 > Again, I may be misreading the chart, but if the number is \$820, we're way  
 > off base.  
 >  
 > Robin  
 > -----Original Message-----  
 > From: Breauninger, Gary  
 > Sent: Friday, August 25, 2000 4:54 PM  
 > To: Barker, Charles; Young, Chris; Joggerst, Patrick;  
 > Fitzpatrick, Brian; Wright, Robin; Madonna, Frank; Madonna, Frank J.;  
 > Reeves, Donna; Young, Chris; Mercogliano, John; Green, Darryl; Marshall,  
 > Ellen B.; Huisman, Maarten; Ercolano, Louis; Gruca, Joseph; Farrell,  
 > Richard; Kayatta, Paul J; Bosch, Frits; Ng, Alex; Walsh, Bill; GRIVNER,  
 > CARL; Wagner, Daniel; Meulen, Koos van der; HAHN, DONALD  
 > Cc: Walsh, David; Clayton, Joseph; Huisman, Wim; Sanchez, Diane;  
 > Muir, Donald; Winfield, Hank; Klug, Robert; Legere, John; Tingley, Jon B.;  
 > Arnold, Richard; Horowitz, Jonathan; BARR, SUE; Scarpati, John;  
 > 'bwood@globalcenter.net'  
 > Subject: RE: follow up from 8/24 meeting on 2001 Revenue  
 > targets  
 >  
 > As a follow up to the discussion Jon Tingley led on 8/24 regarding  
 > 2001 revenue targets, attached you will find the updated revenue targets  
 > from one of the several scenarios we discussed. This view targets ~\$500M  
 > in Revenue from Outsourcing arrangements in 2001 as well as targeting an  
 > increased level of Data Capacity Sales.  
 >  
 > The intention of that meeting was to outline the possible approaches  
 > to achieving the 2001 revenue targets. On the call we reviewed several  
 > possible such scenarios and have centered on this view to now try to move  
 > forward to lock in on channel and product commitments for 2001.  
 >  
 > Attached are three files, the first is an excel file which outlines  
 > Product, Channel and Geographical revenue targets for GAAP and Cash. The  
 > second powerpoint file has some backup and trend charts and the third  
 > excel file has pricing assumptions.  
 >  
 > Jon Tingley's office will be scheduling a follow up meeting next  
 > week to go into more detail on the attached. Any questions or  
 > clarification prior to then, please don't hesitate to call me at 973 410  
 > 8513.

460004402: follow up from 8/24 meeting on 2001 Revenue targets{F}

Page 4 of 4

>  
> Gary Breuninger  
>  
>  
> << File: Rev Ctr View - Outsource 4.xls >> << File:  
> Outsourcing\$500M IRU Adj.ppt >> << File: Price Summary.xls >>

**CONFIDENTIAL**

**From:** Wright, Robin  
**To:** Walsh, David  
**CC:**  
**BCC:**  
**Subject:** follow up from 8/24 meeting on 2001 Revenue targets{F}  
**Date:** 8/30/2000 11:56:22 AM  
**Attachments:**

---

David,

I dropped off the call this morning, thought maybe the train noise was interfering. Anyway, I am very concerned with the IRU number. I sent the note below to Gary and Jon, and while I think they understand, I think the IRU number ends up being the plug number in order to meet the street's expectations. In addition to the notes below:

\* I would like to have someone walk us through exactly how much capacity we will have to sell (and the factory can presumably provision) and what the impact of that is if the market moves from IRUs to leases. I would also like to understand the growth rate they have factored in, in units, given their price assumptions. Do we need to sell 50% more? Twice as many STM1s?

\* There seems to be a disconnect between the Tingley budget and the bottoms up NA one that Clayton supposedly approved. The difference for my piece (my old piece) is around \$200M. The number Brian submitted (I believe) was \$630M and Jon is showing \$820M. Just to put that in perspective, in order to make up that \$200M, difference the team would have to sell 417 STM1 leases on AC1 in January. Ain't gonna happen.

Robin

> -----Original Message-----

> From: Wright, Robin

> Sent: Tuesday, August 29, 2000 5:41 PM

> To: Breauninger, Gary; Tingley, Jon B.

> Cc: Joggerst, Patrick; Fitzpatrick, Brian; Barker, Charles; Catherwood,

> Glenn; Marshall, Ellen B.

> Subject: RE: follow up from 8/24 meeting on 2001 Revenue targets

>

> Gary,

> I will be in route to a customer in DC tomorrow morning, but a couple

> of thoughts:

> \* I am very concerned about the number for IRUs here. From what I

> see (and maybe I'm reading this wrong), if I take out \$201M for GCNA, it

> leaves me around \$820M for international IRUs for North America. If I

> have a VERY good 4Q, I may make the original target of \$573M for 2000. I

> think a jump from there to \$820M is unreasonable. We need to be realistic  
> about the fact that there will be a great deal more competition in 2001.  
> We will not be the only game in the Atlantic and Pacific.  
> \* We have been raising this issue since 1Q: we are seeing a migration  
> from IRUs to leases and the implications are huge. For comparison  
> purposes, here is the breakdown over the last year:  
>  
> <<...>>  
> \* As you know, prices are dropping fast and, to some extent, we are  
> our own worst enemy. When saddled with an unreasonable revenue  
> expectations, we do the crazy deals at the end of the quarter. This, in  
> turn, causes prices to drop which makes it more likely that we'll need to  
> do another deal at the end of the next quarter. Case in point: We sold  
> an STM32 to Qwest in 1Q for \$92M. We needed the revenue, I know, but what  
> we did was lower the price point immediately from \$6M to \$4M.  
> \* I know that we need to step up to growth and are willing to do it.  
> Again, I may be misreading the chart, but if the number is \$820, we're way  
> off base.  
>  
> Robin  
> -----Original Message-----  
> From: Breauinger, Gary  
> Sent: Friday, August 25, 2000 4:54 PM  
> To: Barker, Charles; Young, Chris; Joggerst, Patrick; Fitzpatrick,  
> Brian; Wright, Robin; Madonna, Frank; Madonna, Frank J.; Reeves, Donna;  
> Young, Chris; Mercogliano, John; Green, Darryl; Marshall, Ellen B.;  
> Huisman, Maarten; Ercolano, Louis; Gruca, Joseph; Farrell, Richard;  
> Kayatta, Paul J; Bosch, Frits; Ng, Alex; Walsh, Bill; GRIVNER, CARL;  
> Wagner, Daniel; Meulen, Koos van der; HAHN, DONALD  
> Cc: Walsh, David; Clayton, Joseph; Huisman, Wim; Sanchez, Diane; Muir,  
> Donald; Winfield, Hank; Klug, Robert; Legere, John; Tingley, Jon B.;  
> Arnold, Richard; Horowitz, Jonathan; BARR, SUE; Scarpati, John;  
> 'bwood@globalcenter.net'  
> Subject: RE: follow up from 8/24 meeting on 2001 Revenue targets  
>  
> As a follow up to the discussion Jon Tingley led on 8/24 regarding 2001  
> revenue targets, attached you will find the updated revenue targets from  
> one of the several scenarios we discussed. This view targets ~\$500M in  
> Revenue from Outsourcing arrangements in 2001 as well as targeting an  
> increased level of Data Capacity Sales.  
>  
> The intention of that meeting was to outline the possible approaches to  
> achieving the 2001 revenue targets. On the call we reviewed several  
> possible such scenarios and have centered on this view to now try to move  
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>  
> Attached are three files, the first is an excel file which outlines  
> Product, Channel and Geographical revenue targets for GAAP and Cash. The  
> second powerpoint file has some backup and trend charts and the third  
> excel file has pricing assumptions.



>  
> Jon Tingley's office will be scheduling a follow up meeting next week to  
> go into more detail on the attached. Any questions or clarification prior  
> to then, please don't hesitate to call me at 973 410 8513.  
>  
> Gary Breaninger  
>  
>  
> << File: Rev Ctr View - Outsource 4.xls >> << File: Outsourcing\$500M IRU  
> Adj.ppt >> << File: Price Summary.xls >>

## CONFIDENTIAL

**From:** Winkler, Wesley  
**To:** BECCE, JOE  
**CC:**  
**BCC:**  
**Subject:** Velocita Deal  
**Date:** 9/4/2001 12:37:27 PM

---

**Attachments:**

---

Joe,

I have been charged with the daunting task of figuring out how to sell the junk we obtained over the past few quarters of reciprocal deals.

One of the deals is the Dark Fiber from Velocita. Did we receive a list of available routes from Velocita in conjunction with the deal? IF so, please send it to me.

Thanks,

Wes

Wesley J Winkler  
Vice President Strategic Sales  
7 Giralda Farms  
Madison, NJ 07940  
973-872-6663  
Cell: 201-888-4420  
Fax: 973-305-9707

**CONFIDENTIAL**

**From:** Fitzpatrick, Brian  
**To:** Walsh, David  
**CC:** Joggerst, Patrick  
**BCC:** Clayton, Joseph  
**Subject:** GAP Closing - 3rd Q IRU Deals  
**Date:** 9/6/2001 6:52:38 AM

**Attachments:**

D. Walsh-

As of today (Sept. 6th) the high end of the working IRU sales number for the 3rd quarter will be \$100-\$125M. Given that we have a target of approximately \$725M, we obviously have a huge gap. After many discussions with the team we have identified the following deals that, if consummated could contribute to closing the \$600M gap.

No one on the team is suggesting that we enter into any of the following deals under normal operating conditions. Each of the deals require almost a 1:1 reciprocal purchase on our behalf. We will need to align upwards of \$500-600M in cash to execute the following. The first is what the respective carrier is interested in purchasing from GX followed by what they are requiring GX to purchase from them.

These deals are in addition to the \$100M being worked.

## N. America: Deal Points Approx. Cash Value:

- 
1. L3 EAC vs. US backbone \$400M
  2. Qwest SAC vs. ? \$75-100M
  3. Teleglobe EAC vs. ? \$30-50M
  4. WorldCom EAC vs. Austr-Japan \$30-50M
  5. FLAG PC-1 vs. ? \$50-80M
  6. Florida Power ? vs. FL capacity \$25-50M

## L. America:

- 
1. Emergia Miami-Lon vs. 10G SAC \$25-50M
  2. IMSAT Andean vs. ? \$25-35M

## Asia:

- 
1. CNC creative financing deal \$23M
  2. NAVA sing-Austr. & Marine \$30M

## Europe:

- 
1. Cable & Wireless ? vs. J-US \$80-100M

I would like to have a discussion with you about our strategy for this quarter. I'm not sure what incremental value we will gain by doing any of these deals given our current Mkt. position?. These are all mostly bad deals that are going to eat into our cash position.

It is important for you to know that many members of our senior (carrier) team have approached me looking for guidance when it comes to these 'type' deals. They are very concerned that, (1) we have entered a stage that we might not be able to recover from, and (2) they will become labelled some how as the one that did 'that' deal. I know that we are operating in some of the hardest times of our careers but we need to make sure we do not destroy the team that got us here at the same time..... lets discuss.

In an effort to keep all of the resources focused on closing the identified \$600M gap I have instructed everyone to continue to work each of the deals defined above as if we are going to close them by 30/09/01.

Please give me a call to discuss.

Brian  
06.09.01  
+44 (0)207 904 1812 (Office)  
+44 (0)207 904 1804 (Zoe Forrest, PA)  
+44 (0)207 904 2722 (Fax)  
+44 (0)777 096 0345 (Mobile)

**CONFIDENTIAL**

**From:** Joggerst, Patrick  
**To:** Yaremko, Robert; Delorimier, Jami; Wright, Robin  
**CC:**  
**BCC:**  
**Subject:** 3Q opportunity tracking -- For your eyes only  
**Date:** 9/10/2001 1:17:13 PM

---

**Attachments:**  
Q3 Updatel - Sept 10.xls

---

Robert,

Here is the revised version of the report prepared by Robin capturing scenarios on how we might be able to get the qtr done -- David thought the revised goal should be \$650M -- please check with Joe Perrone that this works for the corp. overall. Some of these opportunities we may not discuss in great detail, if at all, on the morning calls. BUT -- we need your input for revenue recog!

Thanks,  
Patrick

<<Q3 Updatel - Sept 10.xls>>

**CONFIDENTIAL**

**From:** Wong, Joey (Wen Hai)  
**To:** Yaremko, Robert; Gutierrez, Matthew  
**CC:**  
**BCC:**  
**Subject:** qtr end deals: Pegasus case{F}  
**Date:** 9/25/2001 7:59:33 AM  
**Attachments:**

---

Robert,

Right now, the only one we have is the Pegasus one. The problem with the other deals is that sales folks don't know what exactly they're getting and product guys haven't figured out what to do with those assets and GNO buckets, so this business case guy is stuck since there's no direction given. What makes it worst is that a lot of the assets we're getting, I don't think we can justify them (e.g. the cases will be NPV negative). For example, by the time we're selling the transatlantic waves from the dishnet deal, we'll be losing around \$1M-\$2M per wave and that's before I even account for the P&L expense items. I wish this company just come clean with the Street regarding our guidance. This swap crap is going to kill us in the long run and I'm personally very fed up with this business case garbage. If the cases are not some required documentation for revenue recognition purposes, I suggest that we kill these case requirements or loosen the expectations on them. Enough whining on my part. Am working a case for Emergia and will pass it along once the draft is completed. Someone else is working one for Sita Equant and will pass that along when completed. Matt, per Gary and others' input, I'm not going to waste my time reviewing the cases from AGC.

I'm working in the Pine St Office, so the best way to reach me is via email or cell (number below).

Joey Wong  
Global Crossing  
(T) +1 973-410-8527  
(C) +1 973-722-4932  
(F) +1 973-410-8510  
(E) JXWong@GlobalCrossing.com

**CONFIDENTIAL**

**From:** Cali, Jim  
**To:** Wright, Robin  
**CC:** Walsh, David  
**BCC:**  
**Subject:** Qtr End Deals{F}  
**Date:** 9/26/2001 2:08:36 PM  
**Attachments:**

---

Robin,

If we are moving ahead with these deals regardless of the product management input that's fine then I don't see why we are being asked what capacity we need in all these regions if the input is disregarded anyway. All they are doing is replying to inquiries we are receiving. It has been driven home we are going to be the group responsible for margin and revenue and it appears the individuals are just informing you of the "real" reality of what these deals mean to us at the end of the day. I have already spoken to Dave and know that we are moving ahead and will inform the team of that.

I am in office if you are around.

Jim

-----Original Message-----

**From:** Wright, Robin  
**Sent:** Wednesday, September 26, 2001 1:56 PM  
**To:** Cali, Jim  
**Cc:** Joggerst, Patrick; Walsh, David  
**Subject:** RE: Qtr End Deals  
**Importance:** High

Jim, tried to track you down but your door is closed. You need to get on your team right away about this. They are inundating the sales team with their opinions about the deals and frankly, we are WAY too far down the road to let everyone weigh in on these. We have tried to include people all along and are now in the position where we have to leave it to sales to do the best deal possible. As far as we know, the decision has been made to figure out how to make our quarterly commitment and that we are not backing away from any deals on the table. If you or your team have different direction, this would be an excellent time to let us know. Otherwise we need to proceed and let the senior management team make the final call at the nightly reviews. I'm around to discuss. Let's you and I figure out how we get sales the information they need in a constructive and efficient way. Thanks for your help.

Robin

-----Original Message-----

**From:** Thompson, Paget On Behalf Of Joggerst, Patrick  
**Sent:** Wednesday, September 26, 2001 1:07 PM  
**To:** Walsh, David; Wright, Robin; Cali, Jim

Subject: FW: Qtr End Deals  
Importance: High

There are a string of emails that will effectively KILL the Qwest, Dishnet/Siva and Tycom deals ... here is my personal favorite.  
These deals represent ~\$450M of our attempt to get to \$675M in revenue. Someone needs to fix this -  
- I don't have time!!!!  
Patrick

-----Original Message-----

From: Palma, Tony  
Sent: Wednesday, September 26, 2001 11:09 AM  
To: Morris, Charles  
Cc: Joggerst, Patrick; Cali, Jim; Alavanja, Peter T.  
Subject: Qtr End Deals  
Importance: High

Chuck, I spent an hour w/ Rich Mondello last night discussing GX network needs. I briefed Pete Alavanja this AM for business planning purposes. I asked him to work with you and Rick Ford, as well as Joey Wong. I can elaborate as needed, but here's the net summary.

Trans-Atl- capacity stock-out 4Q02. network groom or initial 80Gig 360 take-down extends stock-out to 4Q03. Current GX legal position is that we will receive 360 capacity. Network team believes we can mitigate risk by purchasing 4-6 protected waves, if we can pay \$4-\$5M per. Tyco previously quoted Rich \$5M per and indicated we could negotiate to <\$4M per. At \$7M, the business case and NPV is upside down. , Product Mgt and network view support 4-6 protected waves at <\$5M per (Joey/Pete modeling to ensure NPV neutral+).

Trans-Pac- capacity stock-out in 2005. We do not need additional capacity here. Network will model opportunities to see if they add value for forecast/capacity risk (ie mesh network creation).

There also appear to be some other smaller opportunities in LA (Maya...) to pursue. We will work with you to evaluate opportunities as they arise, but I wanted to share the discussions from last night. Network & GPM recognize the objective and challenge in meeting our 3Q cash target, but want to focus opportunities as appropriately as possible given requirements, capex,...

TP

-----Original Message-----

From: Morris, Charles  
Sent: Wednesday, September 26, 2001 1:02 AM  
To: Ford, Richard (Rick); Wong, Joey (Wen Hai); Luczak, Robert M.  
Cc: Joggerst, Patrick; Delorimier, Jami; Mondello, Richard; Alavanja, Peter T.; Higase, Ted; Erickson, Scott  
Subject: Atlantic and Pacific Purchases  
Importance: High

Ok...here's the assumptions I would use in these business cases....

Purchases Summary (as of yesterday anyhow)

file://\\COMMERCE\\common\\O&I\\global crossing\\Walsh\_insid...\\0000000003D2 342.htm 6/23/2002



Qwest - 4 linear 10 Gbps waves on Flag Atlantic (2 on each of 2 diverse routes) - This one may change.  
 Dishnet - 14 linear 10 Gbps waves on Tycom Atlantic (7 on each of 2 diverse routes)  
 Tycom - 44 linear 10 Gbps waves on Tycom Atlantic (22 on each of 2 diverse routes) all of which are portable to the Pacific for waves (maybe fiber)

Qwest and Dishnet Business Case:

Need to prove in the Qwest and Dishnet purchases on expected demand/revenues including our current and anticipated inventory for the Atlantic. You should have the demand and the current inventory and I think we need at least part of this for near term requirements for diversity. For future inventory, I'd assume we get the 360 Atlantic capacity conservatively by the end of 2002.

Tycom Business Case:

Need to prove in the Tycom purchase based on the Atlantic as above if possible. Otherwise, look at proving it in for the Pacific. If we have capacity there, we'll have to look at the value of the Mesh Network. Either use Lisa Dadouris data points, or Jami Delorimier has some info on cost reductions from the mesh network. Of course, I think that only helps us on the services side of the business, not the wholesale side, but product management can comment further.

I think that's the approach you should take, any other thoughts?

Chuck Morris  
 Director of Business Development  
 Global Crossing Development Company  
 973-410-8619 - Madison  
 212-658-8259 - New York City  
 cmorris@globalcrossing.com

**CONFIDENTIAL**

**From:** Joggerst, Patrick  
**To:** Walsh, David; Wright, Robin  
**CC:**  
**BCC:**  
**Subject:** Qwest deal into Scandinavia{F}  
**Date:** 9/27/2001 6:53:37 AM  
**Attachments:**

---

I am not kidding - I can't work like this where everyone is now in the mode to cover their ass by documenting opinions.

Patrick

-----  
 Sent from my BlackBerry Wireless Handheld (www.BlackBerry.net)

-----Original Message-----

**From:** Fitzpatrick, Brian <brian.fitzpatrick@GlobalCrossing.com>  
**To:** Bosch, Frits <FBosch@GlobalCrossing.com>; Mercogliano, John <JMergogliano@GlobalCrossing.com>; Ferdinand, Christoph <CFerdinand@GlobalCrossing.com>; Joggerst, Patrick <PJoggerst@GlobalCrossing.com>; GRIVNER, CARL <carl\_grivner@globalcrossing.com>; Metcalf, Phil <Phil.Metcalf@GlobalCrossing.com>  
**Sent:** Thu Sep 27 03:36:40 2001  
**Subject:** Qwest deal into Scandinavia

To all:

I received a call this AM regarding the Qwest deal, specifically regarding our interest for swap capacity into Helsinki. I want to make sure we are all operating from the same place. We do NOT need any capacity into Scandinavia. We currently have invested \$80M+ into this region and have no customers. To tell ourselves we will take this capacity into inventory will add value to our efforts of yielding a return on the investments we have already made is not what we want to do.

If we determine that we need to execute a deal with Qwest for \$XXXXM, then we should do it with our eyes wide-open, after we have had the chance to evaluate all of the pros & cons of the deal.

Do not mask a business plan to justify an ugly deal.

B. V. Fitzpatrick  
 +44 (0)207 904 1812 (UK Office)  
 +44 (0)777 096 0345 (Mobile)  
 +44 (0)207 904 2722 (Fax)  
 brian.fitzpatrick@globalcrossing.com

From: Mohebbi, Afshin  
 Sent: Friday, February 09, 2001 10:23 AM  
 To: Casey, Greg  
 Subject: RE: Q1 IRU Forecast

bless you my man!!!!!!

we probably will eat all of this and then some

Afshin

-----Original Message-----

From: Casey, Greg  
 Sent: Friday, February 09, 2001 9:59 AM  
 To: Mohebbi, Afshin  
 Subject: FW: Q1 IRU Forecast  
 Importance: High

this doesnt include regulated irus and some more international

-----Original Message-----

From: Dalton, Joe  
 Sent: Friday, February 09, 2001 9:33 AM  
 To: Casey, Greg  
 Subject: Q1 IRU Forecast

|                            |               |    |
|----------------------------|---------------|----|
| C&W (Move)                 | \$197,568     |    |
| C&W                        | \$60,000,000  |    |
| Global Crossing            | \$25,000,000  |    |
| Global Crossing Wavelength | \$13,878,983  | Q4 |
| Singapore Telecom          | \$6,590,454   | Q4 |
| Winstar                    | \$15,000,000  |    |
| MFN                        | \$8,376,000   |    |
| Intira                     | \$20,849,472  |    |
| Tenn Indep. Telecom Grp    | \$6,451,200   |    |
| Telstra                    | \$3,900,000   |    |
| Alltel                     | \$10,000,000  |    |
| Telelobe                   | \$50,000,000  |    |
| Total                      | \$211,241,000 |    |

Joseph L. Dalton  
 Vice President Worldwide Wholesale Markets  
 Office: 947-491-5555  
 Email: jldalton@qwest.com

From: Mohebbi, Afshin  
 To: Casey, Greg  
 Subject: RE: Non-monetary transactions.  
 Date: 05/10/2001 06:40:03 PM EST

we go t to get to the bottom of this thing fast work wiht the master, mr.  
 eveleth

-----Original Message-----  
 From: Casey, Greg  
 Sent: Thursday, May 10, 2001 4:14 PM  
 To: Mohebbi, Afshin  
 Subject: FW: Non-monetary transactions.  
 Importance: High

fyi-along the lines of our previous discussion  
 -----Original Message-----

From: Dalton, Joe  
 Sent: Thursday, May 10, 2001 4:11 PM  
 To: Casey, Greg  
 Subject: FW: Non-monetary transactions.

FYI - I've got a call into Matthew for clarification.

-----Original Message-----  
 From: Scott, Matthew  
 Sent: Thursday, May 10, 2001 3:58 PM  
 To: Dalton, Joe/Bischoff, Britt  
 Subject: Non-monetary transactions.

FYI:

Our CFO made a statement this morning that "there can be no non-monetary transaction of any significance, ever again". This mean any deal, even when wires are exchanged, were Qwest purchases roughly similar amounts from a vendor that we have sold an IRU to. Her concerns are that the auditors have stated that we will need to disclose those in our financial releases, and that disclosure will be expanded to show the total scope and volume of all IRU transactions. She will not allow that to happen.

I know this will be discussed at the weekly meetings.

Qwest Communications  
 Matthew.Scott @Qwest.com  
 Director of Finance  
 Strategic Transactions  
 555 17th Street, 3rd Floor  
 Denver, CO 80202

Office & Fax (303) 952-3263  
Mobile (877) FON-MATT  
ePager (877) 619-2475 or matthew\_scott@imcingular.com

Confidential Treatment Requested by Fulbright & Jaworski L.L.P.

QEC 194157

81-961 188

From: Mohebbi, Afshin  
 To: Casey, Greg  
 CC: Eveleth, Bill  
 Subject: RE: april sales  
 Date: 05/14/2001 06:43:09 AM EST

dont count on a reset right now. i will talk to robin on the accounting rules.  
 bill is our guy in this area

afshin

-----Original Message-----

From: Casey, Greg  
 Sent: Sunday, May 13, 2001 9:28 PM  
 To: Mohebbi, Afshin  
 Subject: RE: april sales

I think robin said that we werent going to do any more deals where we pick up facilities at the same time somebody buys them from us. Our revenue looks pretty good; we should hit a billion in recurring, but we're going to have a hard time making the quarter if we cant do any more deals to expand our network as robin said. IRU's are becoming extremely difficult to do. Worldcom will happen at some level but if its not immediately bookable the quarter is in jeopardy. Dalton, Chase, Halverson, McKinney, Filip and Petrie are pulling out the stops and I'm proud of them but we dont do the accounting. Personally, my advice would be to reset expectations and put the best face on to wall street that we can. You have an opportunity with Jacobsen leaving to reposition this as a recurring revenue business and if you dont take it now and make it succinct, I think you run the risk of a feeding frenzy on the street.

-----Original Message-----

From: Mohebbi, Afshin  
 Sent: Saturday, May 12, 2001 5:40 PM  
 To: Casey, Greg  
 Subject: RE: april sales

mr. casey:

knowing what you know about this business, what do you think about the quarter? can we make it. Business is in bad shape. they had a bad April so then need a ton of one time items to make the quarter. we need the WCOM deal to cover most of their gap. What do you think?

afshin

-----Original Message-----

From: Casey, Greg  
 Sent: Saturday, May 12, 2001 2:15 PM  
 To: Mohebbi, Afshin  
 Subject: RE: april sales

its a visible increase in cooperation from gilmore and weston

-----Original Message-----

From: Mohebbi, Afshin  
Sent: Saturday, May 12, 2001 11:10 AM  
To: Casey, Greg  
Subject: RE: april sales

good. this ething is really coming together after certain elements left thegame, huh?

-----Original Message-----

From: Casey, Greg  
Sent: Saturday, May 12, 2001 9:14 AM  
To: Mohebbi, Afshin  
Subject: RE: april sales

weston was actually pretty helpful; he understands and supports the concept of msa's ala IBM and what we did with C&W.

-----Original Message-----

From: Mohebbi, Afshin  
Sent: Saturday, May 12, 2001 8:54 AM  
To: Casey, Greg  
Subject: RE: april sales

no i will check back with my man eveleth

-----Original Message-----

From: Casey, Greg  
Sent: Saturday, May 12, 2001 6:39 AM  
To: Mohebbi, Afshin  
Subject: RE: april sales

ip is picking up too. Did you get any feedback on the "life after IRU's" meeting?

-----Original Message-----

From: Mohebbi, Afshin  
Sent: Friday, May 11, 2001 5:38 PM  
To: Casey, Greg  
Subject: RE: april sales

not bad mr. casey!

send my regards to your team please

afshin

-----Original Message-----

From: Casey, Greg  
Sent: Thursday, May 10, 2001 10:24 PM  
To: Mohebbi, Afshin  
Subject: april sales

afshin my guys had a pretty strong recurring sales month in april. see below.  
greg

Rankings by Region 04/22/01-04/30/01  
Central Subtotal (Shearburn) \$791,398  
West Subtotal (Peterson) \$392,491  
Southwest Subtotal (Griffin) \$369,918  
Southeast Subtotal (Prante) \$298,831  
Northeast Subtotal (Rivera) \$160,613  
QWEST House Accounts \$22,932  
Joe Comer (Strategic) \$0  
Grand Total for Week \$2,036,183

Rankings by Region Apr-01  
Northeast Subtotal (Rivera) \$1,580,302  
Central Subtotal (Shearburn) \$1,485,470  
West Subtotal (Peterson) \$1,304,692  
Southeast Subtotal (Prante) \$1,018,295  
Southwest Subtotal (Griffin) \$715,618  
QWEST House Accounts \$111,576  
Joe Comer (Strategic) \$2,500  
Grand Total for the Month \$6,218,453 \*\*\*\*\*

YTD Rankings by Region 2001  
Northeast Subtotal (Rivera) 6,049,820  
Central Subtotal (Shearburn) 5,393,130  
West Subtotal (Peterson) 5,077,872  
Southwest Subtotal (Griffin) 4,980,722  
Southeast Subtotal (Prante) 4,031,828  
QWEST House Accounts 247,970  
Joe Comer (Strategic) 5,500  
Grand Total for the Year 25,786,843



**From:** Noyes, Frank T  
**Sent:** Wednesday, May 16, 2001 4:10 PM  
**To:** Norris, William; Stout, Kimberly; 'Jennifer Black'  
**Cc:** Simard, Tana; Lau, Ross  
**Subject:** RE: FW: FLAG - Qwest 2nd Qtr 2001 Revised Proposal  
 Jennifer Black will be the main contact on this one from an accounting perspective (it will be out of the office from 5/18 through 5/25).

--- Original Message ---  
**From:** Norris, William  
**Sent:** Tuesday, May 15, 2001 9:03 PM  
**To:** Stout, Kimberly; 'Jennifer Black'  
**Cc:** Noyes, Frank T; Simard, Tana; Lau, Ross (E-mail)  
**Subject:** RE: FW: FLAG - Qwest 2nd Qtr 2001 Revised Proposal

Kimberly,

Thanks for your note.

I have several concerns, including the following:

- o I don't understand the purchase options in respect of what we might be taking back from FLAG (a price of US\$30 million is alluded to in respect of item #2, but no price is alluded to in respect of item #1. I suspect that the US\$30 million may be the sum of items #1 and #2, but am not entirely clear).
- o I am not entirely clear on the financial accounting implications (vs. pre-tax cash implications) and need Frank or Jennifer to walk me through these. Given the fact that I'm in Japan at present, it might be an expedient solution to have them send me a simple spreadsheet via e-mail that shows the financial accounting implications.
- o During Robin Szellga's BU CFO staff meeting last week she made a statement that we should not be entering into any non-monetary transactions (such as the year two items). I suspect, as always, that there are exceptions to the rule but I feel the need to flag this one to make sure that she is on-board for this type of transaction.
- o Ross's recent e-mail also expresses some concern about the above items and a couple of other points, such as the issue of Japan backhaul.

I think that the International team's current view of the market value of an Intra-Asian 10 Gbs is somewhere in the neighborhood of US\$30 million. If my suspicion that the referenced price of US\$30 million is the sum of items #1 and #2, that piece of the equation seems to be roughly in line with the International team's current view.

QEC 022296

Best regards,

Bill Norris

----- Original Message -----  
 From: Stout, Kimberly  
 Sent: Tuesday, May 15, 2001 11:20 AM  
 To: 'Jennifer Black'; Stout, Kimberly; Norris, William  
 Cc: Noyes, Frank T; Simard, Tana  
 Subject: RE: FW: FLAG - Qwest 2nd Qtr 2001 Revised Proposal  
 Importance: High

Bill,

I have been working with Jennifer Black and Frank Noyes on the structure of a deal with Flag Telecom. I have been told by our Legal department that I need to get your sign off on this deal structure. Attached below are Jennifer's recent comments on this deal, as well as a spreadsheet with the proposed deal.

I am currently at GTM in DC and will be meeting with Flag's executives to finalize business points today so that we can move to the contract stage. Please call Jennifer if you need to discuss financial details of the structure. I'm also available by cell at 303-717-2039. Please let me know if you see any problems with this deal so I can let Joe Dalton know prior to the 3pm ET meeting with Flag today.

I apologize for the short notice.

Best regards,

Kym

*Kimberly A. Stout*  
 Director of Strategic Negotiations  
 Qwest Services Corporation  
 555 17th Street, 3rd Floor  
 Denver, Colorado 80202  
 Phone: (303) 992-4032  
 Fax: (303) 992-1776

Only the named recipient(s) should read this e-mail. It may contain confidential information. If you are not a named recipient or you received this e-mail by mistake, please notify me immediately by reply e-mail and delete the message.

----- Original Message -----  
 From: Jennifer Black ([jenniferblack@qwest.com](mailto:jenniferblack@qwest.com))  
 Sent: Tuesday, May 15, 2001 11:13 AM

QEC 022297

To: Kym Stout  
 Cc: Noyes, Frank T  
 Subject: Re: FW: FLAG - Qwest 2nd Qtr 2001 Revised Proposal

Kym, Frank and I talked this morning about the proposed structure of the Flag deal. We both agree there is a value to the discounted IRU that we will provide for them next year. Technically, part of the \$10m should be deferred until that IRU is provided. However, as this is completely immaterial for each of the quarters this structure should be OK.

It should be noted that the IRUs bought and sold in year 2 will be considered a nonmonetary transaction (even if cash is swapped). The auditors' position has been that we must accept the IRU that we are buying before revenue can be recognized on the IRU sold. Just wanted to make you aware of that such that if the route we are buying isn't ready until after the route we sell we will have to delay revenue recognition.

Jenni

"Noyes, Frank T" wrote:

- > I have been working with the team on a structure that will work for the Flag
- > transaction. I think that the structure summarized here works AND should be
- > clear of the non-monetary transaction rules. Note the following:
- >
- > 1. Q leases capacity to Flag for 1 year for \$10 million (which based on an
- > email from Global Crossing quoting Q a price for the same service, up to \$13
- > million could be supported - so o.k. from a FMV perspective) revenue to be
- > recognized ratably over the year.
- >
- > 2. Flag has a \$10 million commitment to purchase an IRU at the end of year
- > one. Note that they will get a \$20 million IRU at that time, the \$10
- > million for the first year is due to the fact that the capacity that Q wants
- > to sell will not be available until 6-9 months from now. The capacity that
- > will be leased to Flag for the first 12 months is more "expensive" capacity
- > (per Kym Stout) and therefore Q does not want to sell an IRU for \$20 on this
- > capacity, would rather wait until the "cheaper" capacity is available.
- > Therefore Q is allowing the \$10 million paid in year one (which again is FMV
- > for the particular capacity) to "count" towards the purchase in year 2. I
- > think we are o.k. here, especially since the amount of revenue recognized by
- > Q during each of the next 4 quarters is immaterial PLUS, I think it is the
- > right answer from a business perspective.
- >
- > 3. My understanding on the letter of intent for future services is that the
- > services will be offered at about 25% off of list price. This seems fine to
- > me and is not large enough to imply front-loading the first revenue stream
- > (especially given the 12 month recognition period).
- >
- > Given the timing of cash flows and revenue recognition, I truly believe that
- > this transaction will not be considered non-monetary, although we still may

QEC 022298

> have to support the FMV of all components. I am comfortable with the  
 > pricing of the products/services being offered by Q. I do not believe that  
 > this transaction, as currently structured, needs to be presented to AA. To  
 > do so would only indicate that we have doubts about our conclusion.  
 >  
 > Frank T. Noyes  
 > Senior Director - Finance  
 > Strategic Transactions  
 > Qwest Communications  
 > Office: 303-992-2597  
 > Cell: 720-203-2956  
 > Fax: 303-296-4798  
 > 1801 California St. 51st Floor  
 > Denver, CO 80202  
 >  
 > -----Original Message-----  
 > From: Lee, Shawna  
 > Sent: Friday, May 11, 2001 4:57 PM  
 > To: Casey, Greg/Hawkins, Julie; Dalton, Joe/Bischoff, Brian; Heil,  
 > William (Bill); Chase, Susan (Wholesale); Moorhead, Susan ; Stout,  
 > Kimberly  
 > Cc: Noyes, Frank T.; Nimitz, Dan; Rivera, Rick  
 > Subject: FLAG - Qwest 2nd Qtr 2001 Revised Proposal  
 >  
 > Attached for review is the revised proposal between Qwest & Flag. We have  
 > resolved almost all of the outstanding issues and hope to have the deal  
 > points agreed upon prior to the call on Monday, May 14th to move forward  
 > with finalizing this deal and strengthening the relationship for future  
 > business.  
 >  
 > <<RevisedFlagQwest2ndQTRDealMay11.xls>>  
 >  
 >  
 > Shawna S. Lee  
 > Regional Sales Director, NE Region  
 > Wholesale/Carrier Division  
 > Qwest Communications  
 > Phone/212.907.6509  
 > Fax/212.972.8184  
 > EFax/509.757.7186  
 > Email/shawna.lee@qwest.com  
 >  
 >  
 >  
 > -----  
 > Name: RevisedFlagQwest2ndQTRDealMay11.xls  
 > RevisedFlagQwest2ndQTRDealMay11.xls Type: Microsoft Excel Worksheet  
 > (application/vnd.ms-excel)  
 > Encoding: base64

QEC 022299

From: Heil, William (Bill)  
 Sent: Friday, June 08, 2001 8:12 AM  
 To: Cohen, Denise A; Schreuder, Jan; Casey, Greg  
 Cc: Mogendorff, Ewoud; Chase, Susan (Wholesale)  
 Subject: RE: Global Crossing

To all.....I talked with Ross last night and he understands that we may do all three (Flag, GX and TYCOM) deals this quarter. He is a team player and will go with it. But he also wants to make sure that he doesn't get more capacity than he can swallow.

I'm putting together a spreadsheet with the three deals depicting the following for release by COB today.

- 1) What kind of deal it is
- 2) Price per STM-1
- 3) Backhaul, included or excluded
- 4) Deal transactions
- 5) Revenue recognitions - who gets what

So far, he knows about and agrees with the FINAL STM-64 and the GX PC-1 STM-64. He will probably also agree with some TYCOM but wants to see how this part is structured. I believe that there is some flexibility in the FINAL deal in that at the end of our 12 month lease of this capacity from FLAG, we could walk away from the bandwidth. This would then require Ross to replace it with other system bandwidth.

*William Heil*

(303)552-7368 Voice  
 (303)552-4044 Fax  
 (303)584-8172 cell

-----Original Message-----

From: Cohen, Denise A  
 Sent: Thursday, June 07, 2001 5:57 PM  
 To: Schreuder, Jan; Casey, Greg  
 Cc: Mogendorff, Ewoud; Chase, Susan (Wholesale); Heil, William (Bill)  
 Subject: Global Crossing

Here's a quick reference to the GX deal so far. Things are changing daily. We have a call with GX tomorrow and get update you further at this time.

<< File: 2Q01 Term Sheet 6.7.01.xls >>

Denise Cohen  
 415-479-5594

-----Original Message-----

From: Cohen, Denise A  
 Sent: Thursday, June 07, 2001 3:12 PM  
 To: Schreuder, Jan; Casey, Greg  
 Cc: Mogendorff, Ewoud; Chase, Susan (Wholesale)  
 Subject: RE: follow-up on your Magilla-call this morning

Update with GX.

Per Ross Lau he doesn't need a 10gig Southern Ring on the EAC. Owest does need extra capacity on PC-1 therefore we can BUY PC1 instead of the Asian capacity and keep this deal going.

Denise

-----Original Message-----  
**From:** Schreuder, Jan  
**Sent:** Thursday, June 07, 2001 3:13 PM  
**To:** Casey, Greg  
**Cc:** Mogendorff, Ewoud; Cohen, Denise A  
**Subject:** RE: follow-up on your Magilla-call this morning

Gxing offers Asian Capacity, upgradeable/portable.

According to Bill Hell you have a need for this capacity and pricing seems to be very good.

You can sell them European wavelength services as well as European DF. You should get \$ 60 Mio out of this, at least.

More questions or clear enough for now?

-----Original Message-----  
**From:** Casey, Greg  
**Sent:** Thursday, June 07, 2001 4:05 PM  
**To:** Schreuder, Jan  
**Subject:** RE: follow-up on your Magilla-call this morning

whats the deal with gxing?

-----Original Message-----  
**From:** Schreuder, Jan  
**Sent:** Thursday, June 07, 2001 2:59 PM  
**To:** Casey, Greg  
**Cc:** Mogendorff, Ewoud; Chase, Susan (Wholesale); Cohen, Denise A  
**Subject:** follow-up on your Magilla-call this morning

Used to the diapers again?

I spoke with Ewoud. He passed me the action to give you insight in the GX-deal which is cooking.

I have asked Susan and Denise to pick this up, since they are in your chain of command.

I understand the capacity on the table is growing from reciprocity, however I would definitely recommend to move forward with both Tycom as well as Global Crossing (is that what people call: revenue driven ???) as long as we can find a need for all capacity and port it in that direction.

Both GX and Tycom have enough routes to give us some flexibility, don't they?

Regards, Jan

Jan Schreuder  
 VP Wholesalemarkets US

<mailto:Jan.Schreuder@KPNQwest.com> or  
<mailto:Jan.Schreuder@Qwest.com>  
 +1 303 992 4667 office  
 +1 303 641 6548

From: Mohebbi, Afshin  
 To: Casey, Greg  
 Subject: RE: Q2 Revenue  
 Date: 06/11/2001 10:26:35 AM EST

yep need to get more out of him. you need to chat to him as well  
 are you going to be here today or the weather is still bad  
 afshin

-----Original Message-----  
 From: Casey, Greg  
 Sent: Monday, June 11, 2001 8:00 AM  
 To: Mohebbi, Afshin  
 Subject: RE: Q2 Revenue

thats it?

-----Original Message-----  
 From: Mohebbi, Afshin  
 Sent: Monday, June 11, 2001 7:10 AM  
 To: Casey, Greg  
 Subject: FW: Q2 Revenue  
 Importance: High

FYI;

Afshin

-----Original Message-----  
 From: Din, Mariyam On Behalf Of Lau, Ross  
 Sent: Sunday, June 10, 2001 10:05 PM  
 To: Mohebbi, Afshin  
 Subject: Q2 Revenue  
 Importance: High

Afshin,

In response to your email, the Q2 projects we are working on are:

1. China Netcom

This is a swap deal 2 STM-1 HK-LA for 1 STM-1 each HK-Shanghai and HK-Beijing.  
 Value = \$10M. We have reached agreement in principle. My team will be in  
 Beijing starting tomorrow for contract closure discussion.

Issue: Since HK-LA circuit will be derived from EAC-1 and PC-1, both of which  
 we obtained through a swap with Global Crossing, creative contractual wording

QEC 165717

and terms must be advised by Denver Finance and Legal groups in order for us to recognize the revenue.

2. World Com

World Com needs 4 STM-1 on EAC-1' for HK-Japan. This was part of the larger swap deal being worked by Wholesale. The latter is bogged down but they need the capacity for HK-Japan now. We are currently looking at a lease arrangement at \$160K/month with call options after 6 months for 15-yr IRU (\$6M) or 10-yr IRU (\$5M). As this arrangement will derive no revenue for us in Q2, I have asked the sales team to go back and see what will it take to do a cash deal this quarter. Chances are low since World Com has put an embargo on capex.

Regards,  
Ross

QEC 165718





CONFIDENTIAL

**Date:** August 2, 2001  
**To:** Greg Casey, Joel Arnold, Roger Hoaglund, Joe Dalton  
**cc:** Afshin Mohebbi, Bill Eveleth, Mark Schumacher, Grant Graham  
**From:** Robin Szeliga  
**RE:** IRU Accounting - Some Rules of Engagement

With the recent issuance of new accounting standards that impact IRU accounting, an increase in "trade-in" or "upgrade" activity, an increase in "two-way" or "swap" transactions, and an increase in accounts receivable balances (and collection risk), I would like you to ensure that the policies and procedures set forth in this memo are implemented, effective immediately.

Accounting Change Related to Nominal Purchase Option in IRU Agreements

Effective July 19, 2001, a new accounting pronouncement changed the requirement for the nominal purchase option included within our IRU agreements. More specifically, the new pronouncement requires that the undivided ownership interest in the fiber transfer automatically as opposed to it being a nominal purchase option (i.e. \$1.00). Frank Noyes is working with legal to get the appropriate language change into our standard agreements immediately.

Upgrades

The original upgrade language that was introduced into Qwest's IRU agreements in 1999 was intended to allow the customer, upon mutual agreement between Qwest and the customer, to "upgrade" their capacity on a route(s) previously purchased as their bandwidth needs increased along the purchased routes.

The activity of "trading-in" circuits for circuits on different routes raises the question whether or not the earnings process was in fact complete as of the date of the original transaction and therefore will not be considered.

EFFECTIVE IMMEDIATELY, the following upgrade language will be the only acceptable language to be included in an IRU agreement:

"Upon mutual agreement of the parties, Customer may, upon thirty (30) days written notice provided to Qwest, be allowed to sell back on a one-time basis any IRU User Route set forth in Exhibit A in exchange for Customer's purchase, upon similar terms and conditions as those described herein (including term) of an IRU with greater bandwidth than the IRU sold and along the same User Route. In the event Customer wants to sell back a circuit for purposes of upgrading, the Qwest repurchase price will be for fair market value of the IRU User Route being purchased by Qwest as of the repurchase date. The IRU Fee applicable to the upgraded circuit(s) shall be provided by Qwest prior to Customer's purchase. All purchases of Capacity pursuant to this section are subject to availability."

note that both parties are agreeing that any upgrade will be at fair market value at the date of the upgrade. This does not mean what the customer originally paid, unless specific evidence is provided that indicates that this represents the current fair market value.

In addition to the foregoing, there will be no side letters or verbal commitments outside of the IRU agreement that conflict with the contractual upgrade language or specifically indicate that an upgrade will be agreed to. Note that we are required to provide representation to our auditors that no side letters or other verbal or written agreements exist between the parties.

With respect to agreements entered into previously (which contain the upgrade language with the option for purchasing capacity on different user routes), ANY purchase and resale of new capacity that falls outside the parameters of the "new" upgrade clause set forth above, will require my approval. Remember that the upgrade clause begins with "Upon mutual agreement of the parties..." and Qwest may not agree to certain upgrade activities.

#### Nonmonetary or "Two-way" Transactions

Over the past several quarters, Qwest has entered into a significant number of transactions in which Qwest purchases a similar (if not equal) value of products and services as those being sold by Qwest. Although I realize that economic conditions and strategic considerations are contributing factors to transactions of this nature, the following will be required prior to the execution of ANY transaction in which there is a buy-side:

- A detailed business case showing how the products/services being purchased will be monetized by Qwest. In addition, the "owner" of the purchased products/services must be identified (i.e. the one who will ensure that the purchase is monetized);
- Objective support for the fair market value of the products/services being purchased;
- Sign-off from capital budgeting as well as the executive whose capital budget is impacted by the purchase (if the purchase represents property/equipment);
- Approval by Robin Szeliga.

A more detailed nonmonetary transaction policy and procedure document is forthcoming (from Bill Eveleth's organization).

#### Accounts Receivable

In order to ensure adequate cash flow, control receivable levels and minimize bad debt exposure, the following payment terms will be the outside end of the range that Qwest will accept:

- 25% upon execution of the IRU agreement;
- The remainder within 12 months.

We should clearly attempt to get as much cash up-front as possible. The above position should represent the worst case/fall back position. Any proposed terms that are less favorable than those above will require the approval of Robin Szeliga.

The above discussion is not intended to be all-inclusive with respect to IRU issues, but rather a synopsis of some of the more significant issues currently facing the organization. Thank you for your cooperation.

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**From:** Mohebbi, Afshin  
**Sent:** Friday, September 28, 2001 10:09 PM  
**To:** Casey, Greg; Dalton, Joe (VP); Petrie, Deb  
**Cc:** Hoaglund, Roger; Eveleth, Bill; Graham, Grant  
**Subject:** RE: Help!!!!!!

Bill eveleth and Roger Hoaglund. They need to call Shumaker, Kelly Carter and other finance people, but those two people will help.

Afshin

-----Original Message-----

**From:** Casey, Greg  
**Sent:** Friday, September 28, 2001 10:12 PM  
**To:** Mohebbi, Afshin; Dalton, Joe (VP); Petrie, Deb  
**Cc:** Hoaglund, Roger; Eveleth, Bill; Graham, Grant  
**Subject:** RE: Help!!!!!!

Afshin it's news to me that these yields have gone down so much. What happened? When you say that we need to get these companies to buy "bookable" circuits, who can tell us what those are, by deal? Joe and Deb let's strategize first thing in the morning, greg.

-----Original Message-----

**From:** Mohebbi, Afshin  
**Sent:** Friday, September 28, 2001 9:54 PM  
**To:** Dalton, Joe (VP); Casey, Greg; Petrie, Deb  
**Cc:** Hoaglund, Roger; Eveleth, Bill; Graham, Grant  
**Subject:** ~~Help!!!!!!~~  
**Importance:** High

Team:

As I sitting here in the office at 10:00pm Friday night, I need your help!

We have issues with almost all deals we have on the table. We are committing to buy tons of capacity, eating away my CAP EX and in return, I am getting very little recognizable revenues. This must change, and changed this weekend. We also have completely given up pushing back at anything and anybody that comes up with yet another opinion to interpret things differently. I need you guys to mobilize.

Here is the list:

1. Cable and Wireless: I am paying a total of \$49m and as of now, it looks like I can only book \$19.2m, if I am lucky. Since we have committed to pay them \$49m, lets at least pick circuit combinations that will allow us to book more. The goal here is not to be nice and accomodating to the other side, it is to get bookable revenues NOW
2. Enron: Robin is getting involved with Kelly Carter to get these guys moved from their position. Our risk is much larger than theirs. Bill and Greg, you guys need to get their deal guys to get involved and not let this thing die at the last moment for nothing! This will be shame.
3. Tele globe: I am paying \$20m and as of now I can only book \$8.8m! Greg and Joe; make the circuits and the mix here work in a way that I can book at least \$17-18. Change the circuit selections, do whatever you can to get the number up; worst case, do a smaller deal that books \$8.8m, but does not waste my Cap Ex. money.

QEC 203536

4. Flag: I am buying \$42m of capacity from them, only to book \$4.0m. This is truly a shame. Bill, I am so disappointed we can't find a way out to book more out of this. What happened to the creativity of this company and its employees? We need to PUSH BACK a bit more and see what more we can do without crossing the lines. Come on people!

5. Global Crossing - I am buying \$120m of capacity from these people and as of now I am being told we may be able to book \$40-50m. Again, force these people to take circuits we can book or do a smaller deal and not waste my Cap Ex on the other side.

6. Audrey's projects - Audrey has been great in getting us some help every quarter. This time she has done about \$20m; can she do another 15 to 20 to help out? with other things disappearing that sure can help.

I know all these deals came together extremely late this quarter and that's a story we have to deal with next week, but for everyone's sake, let's put the final push this weekend and get this stuff done, in a way, so I have at least a chance at getting close to my numbers.

Roger, let's make sure we are getting good pricing on our pieces of the deals, since we are definitely giving them good deals. Also make sure the terms and conditions do not restrict our ability to do what we need with the assets we are picking up. All and I'll keep your eyes open and let's not miss a beat because so many things are happening late and all at the same time.

I will be in touch with you guys tomorrow. I am counting on all your support. We have done great things together; let's not have a disaster now.

Thanks

Atshin

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**From:** Casey, Greg  
**Sent:** Monday, October 01, 2001 7:12 AM  
**To:** Mohebbi, Afshin; Petrie, Deb; Gallegos, James; Casey, Greg/Hawkins, Julie; Filip, Dana; Szeliga, Robin  
**Cc:** Tempest, Drake; Baer, Rich; Hoaglund, Roger; Copeland, Stephanie X; Eveleth, Bill; Hopkins, John  
**Subject:** RE: C&W

that's correct a binding deal was done as of friday gmc

-----Original Message-----

**From:** Mohebbi, Afshin  
**Sent:** Sunday, September 30, 2001 9:45 PM  
**To:** Petrie, Deb; Casey, Greg; Gallegos, James; Casey, Greg/Hawkins, Julie; Filip, Dana; Szeliga, Robin  
**Cc:** Tempest, Drake; Baer, Rich; Hoaglund, Roger; Copeland, Stephanie X; Eveleth, Bill; Hopkins, John  
**Subject:** RE: C&W

We have the e-mails confirming we have a deal; the funds are at hand, and i have the conversation with Andy Mclead calling me late on Friday verifying that we have a deal.

By the way, Andy told me their management board had already approved the deal.

I believe they have a new process where their new CFO has to sign the paper and he gets in early London time (2-3am) so lets get him ASAP.

Afshin

-----Original Message-----

**From:** Petrie, Deb  
**Sent:** Sunday, September 30, 2001 9:36 PM  
**To:** Casey, Greg; Gallegos, James; Mohebbi, Afshin; Casey, Greg/Hawkins, Julie; Filip, Dana; Szeliga, Robin  
**Cc:** Tempest, Drake; Baer, Rich; Hoaglund, Roger; Copeland, Stephanie X; Eveleth, Bill; Hopkins, John  
**Subject:** RE: C&W

greg - c&w called & said that they cannot find anyone to sign & they are stopping looking.

-----Original Message-----

**From:** Casey, Greg  
**Sent:** Sunday, September 30, 2001 8:02 PM  
**To:** Gallegos, James; Mohebbi, Afshin; Casey, Greg/Hawkins, Julie; Filip, Dana; Szeliga, Robin  
**Cc:** Tempest, Drake; Baer, Rich; Hoaglund, Roger; Copeland, Stephanie X; Petrie, Deb; Eveleth, Bill; Hopkins, John  
**Subject:** RE: C&W  
**Importance:** High

They did escalate immediately. Paul Kerwin called me and I told him that we would sign all the deals today before 12 am and that I was disappointed that his people ceased negotiations today knowing that we needed signatures. I think he is the process now of waking people up in London. Stand by. Greg

-----Original Message-----

**From:** Gallegos, James  
**Sent:** Sunday, September 30, 2001 6:16 PM  
**To:** Mohebbi, Afshin; Casey, Greg/Hawkins, Julie; Filip, Dana; Szeliga, Robin  
**Cc:** Tempest, Drake; Baer, Rich; Hoaglund, Roger; Copeland, Stephanie X; Petrie, Deb; Eveleth, Bill; Hopkins, John  
**Subject:** C&W

Attorney Client Privilege/Attorney Work Product

Afshin, as you instructed I just contacted C&W to let them know that we are uncomfortable going forward with the consent and assignment agreements for the PRI contracts since we felt that we are being treated unfairly with regard to the IRU deals which we were doing (the sale of a transatlantic lease, and the domestic wave IRU). I told them we had to have the sell agreements signed by 12:00 tonight. The C&W individual I talked to (Pat Sheridan) informed me that he would call me in 10 minutes, but he sounded shaken. They have been pressuring me all weekend to get that document signed. Based on instructions from Roger, I have held off all weekend.

I believe that they will escalate this immediately. I will keep you posted.

Jim

**From:** Mchebbi, Afshin  
**Sent:** Thursday, October 11, 2001 8:06 AM  
**To:** Casey, Greg; Hoaglund, Roger; Eveleth, Bill; Gallegos, James; Dalton, Joe (VP)  
**Subject:** RE: Cable and Wireless

sounds good to me. And we need to line up and review the deals weekly. i did not know of the equipment stuff until a couple of weeks before the quarter ended.

afshin

-----Original Message-----

**From:** Casey, Greg  
**Sent:** Thursday, October 11, 2001 7:38 AM  
**To:** Mchebbi, Afshin; Hoaglund, Roger; Eveleth, Bill; Gallegos, James; Dalton, Joe (VP)  
**Subject:** RE: Cable and Wireless  
**Importance:** High

Afshin Here's what I suggest; 1)no more low margin equipment deals; we should have killed the ciena deal early to put this in the right posture; 2) let's lock in the accountants on contract language early; we didnt get final language until wed, before the quarter end; 3) no deals unless they are balanced. period. Greg

-----Original Message-----

**From:** Mchebbi, Afshin  
**Sent:** Wednesday, October 10, 2001 9:55 PM  
**To:** Casey, Greg; Hoaglund, Roger; Eveleth, Bill; Gallegos, James  
**Subject:** Cable and Wireless

Team:

After all of our hard work, the Arthur Andersen accountant ruled that the cable and wireless deal was not completed on time and therefore can not be booked in the 3rd quarter.

Obvously, I am disappointed about this , but more importantly determined to make sure we NEVER have to wait until the last moment to sign a deal. The major factor in the decision was the fact that terms of the contract were being changed even after the quarter ended. Our regular customers have figured out the trick and intentionally drag our process until the last moment. we did an unattractive deal and it did not even count. Our processes simply did not work.

Afshin

Tom Stephens

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From: Hellman, Peter [phellman@nordson.com]  
Sent: Thursday, October 25, 2001 8:43 AM  
To: Tom Stephens  
Subject: RE: Qwest Audit Committee Meeting - October 24, 2001, 7:00 A.M.

Tom:

We did have a good conversation with Russell Knowles, Internal auditor. While he is not leaving because of anything at Qwest directly, a factor in his decision is the tone at the top and how that makes their job at corporate more difficult. Not that Joe is not saying the right things (make the numbers and do it the right way) but the line people including the "divisional CFOs are only hearing make the numbers. In my opinion there are well known consequences for not making the numbers but no clear consequences for cutting corners. Until the consequences are equal the behavior will not change. Take Calpoint as an example. Management is proud that conservative accounting was used. In fact, it was only after the transaction appeared in the press, and there were several rounds of questions did it become known that a take or pay clause exists making the accounting mandatory. Finance people in the business unit were obscuring the appropriate facts both from AA and Robin to whom they directly report. As far as I can determine there were no consequences for their actions.

I suggested to Russell that he also meet with you and that an agenda for such a meeting might be to go over the AA risk assessment sheets that were not faxed to you. This would allow Russell to give his own risk assessment by income statement and balance sheet line item. I think it would take no more than 30 minutes. Given that you are going to be there tomorrow maybe it could be done then. He is with us until the end of October.

Best regards,

Peter

QEC X 005381



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From: Joe Nac [jknow3425@hotmail.com]  
Sent: Thursday, March 21, 2002 5:24 PM  
To: robin.szeilga@qwest.com

I have heard from a couple of differen sources that reductions in manager's salaries have been discussed and are being considered. With all of the crap that Qwest managers have been put through since the merger this would be one of the stupidest things the company could do.

I have some information about violations that Qwest has committed in the area of accounting. If Qwest reduces managers salaries, I will turn these documents over to the SEC and copy the FCC and the Colorado State PUC. The resulting fall out from these "smoking guns" will like cost Qwest more than it could save by reducing manager's salaries.

You better start treating employees better or there will be consequences.

---

Chat with friends online, try MSN Messenger: <http://messenger.msn.com>

Robin Szeliga

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From: mark.iwan@us.andersen.com  
 Sent: Friday, March 29, 2002 3:07 PM  
 To: bktread@qwest.com; robin.szeliga@qwest.com  
 Subject: Qwest Investigation



Qwest  
 Investigation Final Memo.doc  
 Bryan

I wanted to confirm the completeness and accuracy of my understanding of Qwest's investigations. Can you please comment on the attached.

(See attached file: Qwest Investigation Final Memo.doc)  
 \*\*\*\*\*Internet Email Confidentiality Footer\*\*\*\*\*

Privileged/Confidential Information may be contained in this message. If you are not the addressee indicated in this message (or responsible for delivery of the message to such person), you may not copy or deliver this message to anyone. In such case, you should destroy this message and kindly notify the sender by reply email. Please advise immediately if you or your employer do not consent to Internet email for messages of this kind. Opinions, conclusions and other information in this message that do not relate to the official business of my firm shall be understood as neither given nor endorsed by it.

## Memo

ANDERSEN

|         |                             |                  |
|---------|-----------------------------|------------------|
| To      | MTTF                        | Address          |
| From    | Mark M. Iwan                | Tel 303 281 9160 |
| Date    | March 24, 2002              | Fax              |
| Subject | Meeting with Bryan Treadway |                  |

On March 10, 2002, and March 24, 2002, I met with Bryan Treadway, Qwest Controller. Bryan shared with me the results of an in-depth review of IRU contracts performed by Qwest and its outside counsel. The purpose of the review was to identify any issues regarding IRU transactions previously not known to corporate accounting, that may have bearing on the original accounting conclusions reached by Qwest.

On March 28, 2002, I met with Bryan Treadway to understand Qwest's final conclusions regarding its investigation of IRU transactions.

**Global Crossing*****Q1 2001***

In Q1 2001, Qwest purchased Northern Ring capacity from Global Crossing. Some of this purchased capacity was not accepted until June 11, 2001. In a separate legal transaction, Qwest sold capacity to Global Crossing. Qwest received acceptance letters in the first quarter for the capacity sold to Global Crossing and cash payment from Global Crossing was received before the end of the quarter. Legal counsel has concluded that Qwest could retain the cash remuneration regardless of Global Crossing's or Qwest's performance or non-performance under the separate purchase contract.

The investigation raised some question as to whether Qwest's intent was to port to the Southern Ring. As of the date of this memo, no capacity has been ported from the Northern Ring to the Southern Ring. Qwest's investigation found that it intended to use the Northern Ring capacity. Qwest only wanted the flexibility to port to the Southern Ring if the need were to arise in the future. Qwest acquired additional Northern Ring capacity in the second quarter of 2001, which supports its assertion that there was a need for the Northern Ring capacity.

On March 28, 2002, I spoke with Robin Szeliga (CFO). According to Ms. Szeliga, the majority of the capacity acquired by Qwest from Global in this transaction has been lit by Qwest. Bryan Treadway shared with me Qwest's final conclusion that the transaction was appropriately recorded in Q1 2001.

***Q2 2001***

In Q2 2001, Qwest sold \$115 million in domestic and European capacity to Global Crossing. Qwest acquired \$100 million East Asian and \$19.7 million of Pacific Crossing and Hong Kong to Tokyo capacity from Global Crossing, under separate legal agreements, during the same quarter.

Date March 24, 2002  
 Subject Meeting with Bryan Treadway  
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During its investigation, Qwest discovered an e-mail chain originated by Robin Wright of Global Crossing. I did not have access to the e-mail but was told it contained language similar to the following:

Global Crossing

As we have agreed, because we are both being delivered what we probably both don't want in the long-term, we have agreed on both sides that the repurchase price is the actual amount paid, not the fair market value.....We are taking capacity to help with revenue recognition issues.

Qwest (Susan Chase)

I agree with your comments. It is our intention to keep you whole. This language is in our last agreements. Accounting needs to reflect this in the upgrade and portability language.

In a previous meeting (March 10, 2002), the substance of the e-mail was explained to me as being the following:

Qwest received an e-mail from Global Crossing stating we are buying capacity we don't want to help with revenue recognition. Global Crossing wants the ability to port to acquire capacity desired in the long-term. Qwest's reply was that accounting won't let us do these deal structures anymore. The Qwest employee asked if this was handled via a side-letter in Q1.

Upon completion of its investigation, Qwest concluded that they did indeed want the capacity that was acquired from Global Crossing. Qwest has a written business case seeking to purchase alternative capacity from Tycorn for the same purpose in the same quarter. Qwest received better terms from Global Crossing.

Susan Chase stated during the investigation that these are normal negotiation tactics used in an attempt to secure lower prices when negotiating capacity transactions. She confirmed as part of the investigation that there were no side letters in relation to previous transactions.

The clause in question was the ability to exchange or upgrade the capacity at the original purchase price. A first quarter transaction included a clause that allowed Global Crossing to ask to exchange the capacity at the original price; however, the exchange could only be consummated upon mutual consent. The investigation concluded Qwest was not legally or economically compelled to grant permission for the exchange. Qwest has not ported this capacity in an exchange transaction as of the date of this memo. The Qwest controller (Mark Schumacher) accepted the first quarter wording because it was at Qwest's discretion whether to accept or reject the offer, thus Qwest did not have an obligation to repurchase the property nor did Global Crossing have a put. For all future transactions, Qwest insisted on mutual consent wording with a fair value clause in lieu of original purchase price. The fair value clause was ultimately included in the second quarter transaction that was the subject of the e-mail chain. Qwest thus rejected Global Crossing's insistence that the exchange clause be worded to permit an exchange (if accepted by Qwest) at the original purchase price.

Qwest further concluded that Global's assertion it did not want the capacity received in the second quarter was without merit. Global Crossing insisted on substantial European capacity in this transaction. Qwest needed to acquire the capacity (for cash) from KPNQwest under its distribution agreement in order to complete the transaction.

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As a result of its investigation, Qwest concluded that Global Crossing's assertions in the e-mail are without merit and were likely negotiating tactics.

On March 28, 2002, I spoke directly with Susan Chase. Ms. Chase told me she did not have a copy of the e-mail any longer but believed the controversy centered around backhaul capacity Qwest had previously sold to Global Crossing. The backhaul capacity was from the Japan-to-U.S. landing station to the Oakland POP. Global Crossing wanted to port that backhaul capacity to San Francisco. According to Ms. Chase, Qwest would not permit Global Crossing to port that capacity. She told me there was no agreement to allow Global Crossing to unilaterally port the capacity and in fact this capacity has never been ported by Qwest for Global Crossing. Ms. Chase told me that the controversy will be resolved in 2002 by Qwest selling Global Crossing an extension and loop from Oakland to San Francisco for fair value in lieu of porting the initial capacity. Ms. Chase stated that this 2002 deal did not close yet but should close any time. Under Qwest's interpretation of SFAS No. 144, no revenue would be recognized on this 2002 transaction.

Ms. Chase also mentioned a second issue with Global Crossing. Ms. Chase told me Global Crossing wanted the ability to port, if accepted by Qwest, at the original price in lieu of fair value. According to Ms. Chase, she informed Global Crossing that Qwest would only accept a mutual consent, fair value clause. This is consistent with the clauses included in the capacity agreements subsequent to Q1 2002.

On March 28, 2002, I was shown a copy of the subject e-mail but not permitted to retain a copy for our files. The substance of the e-mail was consistent with the above discussion and no new concerns arose from my review of the e-mail. The e-mail did mention Erin Wray (Controller of KPNQwest) and what appeared to be her refusal to agree to something other than a fair value, mutual consent portability clause. A substantial amount of the capacity sold to Global Crossing was acquired by Qwest from KPNQwest.

According to Bryan Treadway, Qwest's conclusion was that this transaction was correctly recorded in Q2 2001.

#### Q3 2001

Qwest sold \$39.7 million in 10-gig domestic capacity and recorded \$28.5 million in revenue. In the same quarter under a separate legal agreement, Qwest acquired \$78 million of STM-1's on Pan American Crossing (west coast of the United States through Mexico to Panama) from Global Crossing. Qwest also received a right to port the Pan American Crossing (PAC) capacity to South American Crossing (SAC) and Mid-Atlantic Crossing (MAC). The original Qwest business case was written to support the SAC/MAC capacity purchase-not PAC.

The Qwest investigation concluded that there was a valid business purpose to obtain the PAC capacity, regardless of the desire and ability to port to SAC and MAC. The PAC capacity could be used for the same purpose as the SAC/MAC capacity and, on a stand-alone basis, would provide a backbone for a possible Mexican joint venture being considered to better utilize Qwest's Mexican network. The primary objective of acquiring PAC in lieu of waiting for SAC/MAC to become available was to own an asset rather than an option to acquire SAC/MAC in case Global Crossing filed for bankruptcy. Qwest was concerned about Global Crossing's viability and did not want to get shut out of Latin America. If Global Crossing did file for bankruptcy and the option arrangement was vitiated, Qwest was concerned it would not be able to obtain capacity to support its

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business needs if they did not own PAC. These business needs included: (1) a U.S. government contract to provide secure services in Latin America; (2) preliminary negotiations to form a possible Latin American venture with a local partner; and (3) a possible joint venture with Bell South. Without this purchase from Global Crossing, Qwest had no submarine cable capacity to Latin America. Qwest believed Global Crossing was the only company that had available Latin American capacity.

Qwest further felt that the Global Crossing capacity was at a good price. A memo from Bill Heil (Senior Director of Global Infrastructure), requesting approval of the SAC/MAC purchase from Global Crossing compared the price to the only theoretical alternative capacity on Emergia's network. The price quote for 56 STM-1's on Emergia was \$100.8 million versus \$60.2 million on SAC.

On March 28, 2002, I spoke with Robin Szeliga (CFO) about the status of PAC versus MAC/SAC capacity. Ms. Szeliga informed me that Qwest exercised its option and began porting capacity to SAC/MAC in 2002.

According to Bryan Treadway, Qwest's conclusion was that this transaction was correctly recorded in Q2 2001

#### Cable and Wireless (C&W)

##### *Q1 2001*

In Q1 2001, Qwest sold C&W sonet and wave capacity for \$68.9 million. Qwest bought from C&W under separate legal agreements Hong Kong to Tokyo and European capacity for \$68.9 million. In Q3 2001, Qwest ported \$48.7 million of the \$68.9 million in acquired capacity.

According to its investigation, Qwest acquired similar Hong Kong to Tokyo capacity from Global Crossing in Q2 2001. The capacity was at a cheaper price than Qwest paid C&W for similar capacity in Q1. Thus Qwest opted to port the capacity back to C&W and keep the cheaper Global Crossing capacity.

The business case cites a change in business plans as the reason for porting the capacity. The KPNQwest network paralleled the original European capacity and provides an alternative solution. The newly acquired capacity was on the Southern Cross and Gemini systems. The Southern Cross capacity will be used to accommodate internal growth including new governmental system needs. Qwest received an order for one of the four STM-1's on Southern Cross for 4Q 2001 from a government services client and forecasted a total demand for that customer of up to an STM-16 by Q4 2002. The Gemini capacity was needed as a result of increased requests for trans-Atlantic capacity from other carriers.

According to Bryan Treadway, Qwest's conclusion was that this transaction was correctly recorded in Q2 2001

##### *Q2 2000*

In Q2 2000, Qwest sold \$65 million in OC-48's to C&W. No revenue was recognized in the 2000 financial statements for this transaction because the transaction was pre-merger. Further, pre-merger Qwest was not required to file a 10Q for Q2 2000 and thus the transaction was not reported in its financial statements.

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In Q3 2000, Qwest granted C&W an option to acquire OC-192's from Qwest along similar routes. The strike was \$65 million and Qwest employees expected that C&W would use the OC-48's to fulfill the strike price. Sometime in Q2 2001, C&W asked to exercise the option for the OC-192's.

On March 28, 2002, I spoke with Bryan Treadway regarding this transaction. The timing of the option agreement calls into suspicion the intent of the original sale and whether C&W was assured portability. Qwest believes a proposed adjusting entry is appropriate. The result would be deferred revenue and additional goodwill of \$65 million at acquisition. Because the capacity has still not been ported to OC-192's, the 2000 and 2001 income statement impact would be a minor amount of revenue recognition (approximately \$3 million annually) offset by an even smaller amount of goodwill amortization (approximately \$1.5 million annually).

#### *Q4 2000*

Qwest sold \$109 million in capacity to C&W. An e-mail from the President and COO of Qwest assured C&W that Qwest would honor the intent of the parties in the transaction, which in C&W's view was to provide for portability if requested by December 31, 2001. C&W requested portability in Q4 2001. In February 2002, Qwest sent a letter to C&W stating they did not believe C&W had the unilateral right to insist on portability. To settle this dispute, Qwest has tentatively agreed to accept 10% of the capacity in Q1 2002 for the original price of \$10.9 million. C&W will abandon the remaining 90% because it no longer has a need for the capacity, and as is C&W's right under the purchase agreement it will cease paying O&M.

The Qwest investigation concluded that C&W did not have a contractual right to port the capacity and the initial accounting was correct in Q2 2000. The settlement was part of a larger settlement with C&W to clear several disputes and, according to Qwest counsel, did not result from C&W's alleged unilateral right to port the capacity. According to Bryan Treadway, Qwest has concluded that the transaction was correctly recorded in Q3 2000.

#### *Tycom*

##### *Q2 2001*

Qwest sold \$134.5 million in capacity to Tycom and acquired, under separate legal agreement, trans-Atlantic capacity. The business case supported the acquisition of 75% Asian capacity and 25% trans-Atlantic capacity. The Qwest investigation discovered e-mails indicating that a possible intent was to port the trans-Atlantic capacity to Asian capacity.

In a meeting held at or about the time of the transaction, the Qwest CFO (Robin Szeliga), Controller (Mark Schumacher) and Assistant Controller (Bryan Treadway) sought assurances from those responsible for the transaction that Qwest needed the trans-Atlantic capacity to be acquired from Tycom. The principal business need was to carry KPNQwest traffic across the Atlantic. Also, the Tycom capacity was needed to backstop the 360 Network capacity owned by Qwest because of Qwest's concerns regarding 360's viability. Some of the capacity was also leased to Global Crossing under operating lease arrangements.

Qwest does not have a portability put on the Tycom capacity. Although the business case discusses the possibility of porting this capacity for C2C capacity once it becomes available from Tycom, the agreements

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provide for a mutual consent, fair value exchange clause. None of this capacity has been ported as of the date of this memo and neither party has a put.

The Qwest investigation concluded that the trans-Atlantic capacity was acquired for good and valid business purposes. According to Bryan Treadway, Qwest's conclusion was that this transaction was correctly recorded in Q2 2001

#### **Enron**

##### ***Q3 2001***

During Q4 1999, Qwest sold \$36 million in dark fiber to Enron in a cash transaction. These revenues are not included in the post-merger financial statements. During Q4 2000, Qwest sold in a cash transaction, an additional \$36 million in dark fiber to Enron. In the Q3 2001 transaction, this dark fiber was part of the \$300 million in dark fiber acquired from Enron. Also in Q3 2001, under a separate legal agreement, Qwest sold approximately \$80 million in lit capacity to Enron.

The dark fiber was re-acquired from Enron at 40% of its original price, or approximately \$30 million.

Enron and Qwest were involved in various disputes regarding the dark fiber. Qwest believes this was driven by Enron's desire to divest itself of its dark fiber inventory. Qwest needed the dark fiber for restoration capacity on its network. Partially as a result of this need and partially to settle the disputes, Qwest reacquired the dark fiber at what they continue to believe is a favorable price.

The Qwest investigation confirmed that there was no intent or commitment to reacquire the dark fiber sold. It was an opportunistic purchase in connection with the broader transaction in Q3 2001. Further, Qwest's attorneys have concluded that because Enron felt obligated to "sell" the fiber to Qwest, this confirmed the validity of the original sale to Enron and Enron's acceptance of those assets.

According to Bryan Treadway, Qwest's conclusion was that this transaction was correctly recorded in Q2 2001

#### **360 Networks**

##### ***Q3 1999 and Q1 2000***

Pre-merger, Qwest sold dark fiber and conduit to 360 Networks. In separate legal agreements, Qwest also acquired dark fiber from 360 Networks. The revenues and cost of sales are as follows:

|       | <u>Revenues</u> | <u>Cost of Sales</u> |
|-------|-----------------|----------------------|
| 1999  | \$73 million    | \$20 million         |
| Q1 00 | \$43 million    | \$34 million         |

In addition, Qwest received \$14 million in cash from 360 Networks as part of the Q3 1999 transactions.

Subsequent to the sales and in connection with the bankruptcy filings of 360 Network, disputes have arisen regarding these transactions. 360 Networks had not formally accepted the capacity and claimed certain



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incidentals (hand holds and manhole covers) were missing. Qwest claimed it did not receive a substantial part of the capacity to which it was entitled.

In connection with the bankruptcy proceedings of 360 Networks, the parties have agreed to the following resolution.

1. 360 Networks will return to Qwest the following capacity: (1) Lake City to Jacksonville (sold Q1 2000); (2) New Orleans to Jacksonville (sold Q3 1999) and (3) Cleveland to Albany (sold Q3 1999). In return, Qwest will pay 360 Networks \$26 million in cash and grant a metro-fiber IRU to 360 Networks for \$8 million. This \$34 million was the original purchase price of the returned assets.
2. Qwest will allow 360 Networks to abandon its Boston to New York capacity and return the capacity it purchased from 360 Networks in Q1 2000. Qwest will no longer have rights to the capacity but will receive no remuneration. According to Bryan Treadway, this \$18 million loss was reserved for in Q3 2001 when 360 declared bankruptcy.
3. 360 Networks will grant Qwest a lien on all remaining 360 Network capacity rights it owns along with the right to acquire the capacity for one dollar. This will ensure Qwest's capacity rights are secured in any future bankruptcy proceedings or if 360's network is acquired by a hostile buyer.

The proposed settlement will state that neither Qwest nor 360 Networks agree or concede that these are executory contracts, but for purposes of this resolution only they will be treated in a manner similar to executory contracts for bankruptcy purposes. According to Qwest legal counsel, neither party believes these are executory contracts. This stipulation is the most efficient means of completing the settlement by keeping the disputed assets out of the 360 Networks bankruptcy estate.

According to Bryan Treadway, Qwest's conclusion was that this transaction was correctly recorded and the return of assets is a Q2 2002 settlement of commercial disputes between the parties.

#### **Flag**

##### ***Q2 2001***

Qwest sold Flag capacity for \$20 million and acquired in a separate legal transaction: (1) a one-year lease for \$20 million and (2) an option to acquire a 20-year IRU on newly constructed capacity for \$10 million. The option expires in Q2 2002 and Qwest has not yet exercised its option. Qwest is expensing the \$20 million interim capacity lease over twelve months and is assigning no value to the option because of its uncertain exercise.

Qwest re-considered whether revenue recognition was appropriate at the time of sale. Qwest concluded that even if the non-monetary rules were to apply, revenue recognition was appropriate because it was an exchange of dissimilar assets (an asset for an operating lease). Profit recognition was not an issue because Qwest lost \$3.8 million on the transaction.

According to Bryan Treadway, Qwest's conclusion was that this transaction was correctly recorded in Q2 2001

Date March 24, 2002  
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#### **MCI/WorldCom**

##### ***Q2 2001***

Qwest sold an IRU to MCI/WorldCom for \$86 million in a Q2 2001 unilateral cash transaction. During Q2 2001, Qwest also agreed to various amendments to unrelated agreements and commitments from WorldCom under which Qwest received breakage fees. Qwest revisited the fair value of the capacity sale in connection with its investigation and concluded the transaction was priced on an arms-length basis. The capacity was sold to MCI/WorldCom at \$0.045 per DSO mile compared to cash transactions for similar capacity of \$0.053 to \$0.13 per DSO mile in the same quarter.

According to Bryan Treadway, Qwest's conclusion was that this transaction was correctly recorded in Q2 2001.

#### **Corvis**

##### ***Q2 2001***

Corvis acquired optical capacity from Qwest for \$10 million and paid the necessary 25% initial payment for revenue recognition. The gross margin on the transaction was \$5 million. In the same quarter, Qwest increased a purchase order for Corvis equipment by \$10 million. Qwest never accepted the equipment delivered under the purchase order because it did not meet Qwest's quality standards. The purchase order was cancelled. The Qwest investigation concluded that the capacity sale was a separate legal transaction and not dependent upon the possible purchase of equipment.

According to Bryan Treadway, Qwest's conclusion was that this transaction was correctly recorded in Q2 2001.

#### **MFN**

##### ***Q2 2001***

In Q2 2000, Qwest deposited \$67 million with MFN to reserve capacity rights on a network to be constructed by MFN. This was pre-merger. In Q2 2001, MFN acquired Japanese backhaul capacity from Qwest in a unilateral cash transaction for \$16 million. The Qwest investigation concluded these transactions were not related.

According to Bryan Treadway, Qwest's conclusion was that this transaction was correctly recorded in Q2 2001.

#### **Sing-Tel**

##### ***Q4 2000/Q1 2001***

In Q4 2000, Qwest sold capacity to Sing-Tel for \$6 million. The routes were received by Sing-Tel in Q4 and accepted in Q1 2001. In a separate legal transaction, Qwest agreed to acquire routes from Sing-Tel. The routes

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were identified and accepted in Q1 2001. Qwest recognized revenue and margin on this transaction in Q1 2001. The Qwest investigation concluded deferral of revenue recognition until Q1 2001 was appropriate.

#### **Network Plus**

##### ***Q4 2000***

Qwest recognized \$12.2 million in revenue in Q4 2000. All acceptance letters had been received and the capacity delivered. However, Qwest believes the cash was not received until January 10, 2001. This is inconsistent with the Andersen workpapers which show that 100% percent of the cash was received in Q4 2000. The gross margin on the Network Plus transaction was \$7.5 million.

There have been numerous cash receipts from Network Plus and Qwest is unsure whether the January 10, 2001 receipt related to this transaction. As a result, Qwest will stay with its original conclusion that profit recognition was appropriate in Q4 2000. This is consistent with Andersen's testing results in Q4 2000.

#### **Teleglobe**

##### ***Q4 2000***

Qwest sold optical capacity to Teleglobe in Q4 2000 for \$72.8 million. Teleglobe and Qwest also entered into an "Option Agreement." The option agreement states that upon mutual consent, Teleglobe may exchange the routes received and if such a request is accepted by Qwest, Qwest will be responsible for delivering the alternate capacity by a date certain or otherwise be responsible for Teleglobe's cost of interim capacity until the alternate routes are received. The option expired in December 2001 and the routes were never exchanged. Further, Qwest concluded as part of its investigation that Qwest was not compelled to accept the exchange despite the title of the agreement and the penalty provisions for lack of timely delivery were only applicable if Qwest agreed to the exchange. Qwest concluded the existence of the option agreement had no impact on revenue recognition in Q4 2000.

#### **Winstar**

##### ***Q1 2001***

Qwest sold capacity to Winstar for \$40 million and recognized revenues of \$22 million. Revenue was recognized only to the extent of cash received because Qwest was concerned about Winstar's viability. However, other receivables (approximately \$6 million) from Winstar existed at March 31, 2001, calling into question how the cash payment for the IRU should be applied by Qwest. Winstar went bankrupt after the end of the quarter and earnings release but before the filing of the 10Q. Qwest continued to recognize revenue on the transaction and the unrelated receivables were considered in Qwest's bad debt analysis as of March 31, 2001. Winstar was dependent upon a financing arrangement from Lucent that was terminated after the end of the quarter. Prior to recording the sale in Q1 2001, the Qwest controller (Mark Schumacher) called the CFO of Winstar and received assurances as to the soundness of their financial condition and the status of the Lucent

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financing commitment. Qwest also performed an internal credit analysis of Winstar. The Qwest investigation concluded that recording the sale in Q1 was reasonable given the facts and circumstances at the time.

#### KPNQwest

##### Q3 2000

In Q3 2000, Qwest sold KPNQwest 4 STM-1's from Seattle to Tokyo for \$12 million. Qwest received cash upon delivery and acceptance. The gross margin was \$3 million. In a separate legal transaction on October 17, 2000, Qwest purchased 13 STM-1's from New York to London for \$12 million. The timing of the transactions might indicate that this was a structured transaction.

According to Bryan Treadway, Qwest's conclusion was that this transaction was correctly recorded in Q3 2000. The margin was below our PAJE scope and would have reversed prior to yearend.

#### Asset Sales for Service Agreements

##### Q1 2001

During the fourth quarter of 2000, Qwest entered into several transactions in which Qwest sold optical capacity for cash and under separate legal agreements, acquired services or operating lease rights. These transactions were deferred until Q1 2001 because Qwest did not begin receiving the service or access rights until that period. During Q1 2001, Qwest recognized both revenues and profit on the sales of capacity. If these transactions were deemed non-monetary exchanges, recognition of revenues would not be problematic because they constituted the exchange of an asset for a service or operating lease. However, based upon Andersen's revision to its White Paper in February 2002, recognition of profit may be problematic if that interpretation was to be applied retroactively to these transactions. Qwest continues to believe these were separate legal agreements which should be viewed as monetary. However, if they were deemed to be non-monetary, Qwest believes (1) the Andersen interpretation should not be applied retroactively and/or (2) the receipt of cash satisfies the initial investment criteria in SFAS No. 66.

Summarized below are these transactions.

##### On Fiber

Qwest sold a \$4 million IRU and recognized gross margin of \$2 million. Qwest received access rights over two years. If deemed non-monetary, approximately 12/24ths of the profit recognition may be deemed appropriate under the new Andersen interpretation. This is under our PAJE listing scope. See also BBO below for aggregate impact.

##### Telseon

Qwest sold \$5 million in dark fiber and recognized a gross margin of \$2 million. In a separate legal transaction, Qwest acquired Ethernet services from Telseon. Telseon made a 25% initial payment for the capacity. Telseon

Date March 24, 2002  
 Subject Meeting with Bryan Treadway  
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defaulted on their remaining payment and the dark fiber was taken back in a December 19, 2001 settlement. The initial payment was retained. Telseon has continued to provide the required Ethernet services substantiating the separate enforceability of the transactions.

According to Bryan Treadway, Qwest's conclusion was that this transaction was correctly recorded in Q1 2001. This is evidenced by Telseon's performance on the Ethernet contract despite forfeiture of its initial payment and asset under the dark fiber contract.

#### **BBO**

Qwest sold an IRU for \$6 million and recognized a margin of \$4 million. In a separate legal transaction, Qwest acquired BLEC access from BBO for 20 years. If deemed non-monetary, the margin may have to be recognized over the twenty-year period in which BBO grants Qwest access to its properties. This amount, when combined with the On-Fiber transaction, would still remain under our PAJE listing scope.

#### **Title Issues**

Qwest has engaged outside counsel to assist in a review of its IRU purchase and sales agreements. The objective of the review was to advise the Company whether it has a reasonable basis to conclude that title/legal ownership will automatically pass for post-EITF 00-11 transactions, or that title/legal ownership will either (1) automatically pass or (2) pass upon payment of a one dollar nominal option for pre-EITF 00-11 transactions. See the general representation letter for the Company's conclusion.

The review identified an isolated exception where capacity was acquired from two telecommunication companies that are now bankrupt. There was not a reasonable basis to conclude that Qwest had the ability to obtain title from these entities and thus could not, in turn, pass title to this capacity to its customers. The companies involved were DTI and FTV.

Qwest identified any and all IRUs it may have sold that could be tainted by this constraint. In lieu of treating the tainted segment as an operating lease (this was generally a Sunnyvale-to-Seattle segment that connected to Seattle-to-Tokyo capacity), Qwest conservatively considered the entire circuit sale tainted. The result was a potential reversal of revenues of \$29 million and \$47 million in 2000 and 2001, respectively, and gross margin of \$10 million and \$27 million in 2000 and 2001, respectively. We will post an appropriate PAJE.

#### **Summary**

On March 26, 2002, I was told by the Qwest CFO (Robin Szeliga) that of the approximately 225 IRU transactions in 1999, 2000 and 2001 investigated, external counsel raised only 8% as having any possible issues. These are the issues raised in this memorandum. Her conclusion was this did not demonstrate a systematic pattern of intentional non-compliance nor did it indicate a material control weakness.

Date March 24, 2002  
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Mark M. Iwan

cc: Richard J. Howell-Andersen Dallas  
Mark Schoppet-Andersen Little Rock  
Richard B. McCune-Andersen Seattle  
Bryan Treadway-Qwest

Boise Cascade Corporation  
1111 West Jefferson Street PO Box 50 Boise, ID 83728  
T 208 384 7557 F 208 384 4912

George J. Harad  
Chairman and Chief Executive Officer

**BOISE**

May 6, 2002

Mr. Philip Anschutz  
Chairman of the Board  
Qwest  
1801 California St.  
Denver, CO 80202

Dear Phil:

I am forwarding to you the enclosed letter, which I received on May 1. The writer is apparently under the mistaken impression that I am a member of the board at Qwest.

Yours Very Truly,

  
George Harad  
GH/gb

QECX004909

George Harad  
Qwest Board of Directors  
3675 W. Quail Heights Ct.  
Boise, ID 83703

April 25<sup>th</sup>, 2002

Dear Mr. Harad:

I am asking that you fire Joe Nacchio and Drake Tempest for cause. Qwest has violated security laws, FCC rules, and some state commission rules.

Joe and Drake did not order specifically subordinates to do unethical and/or illegal acts. However, they set goals and targets that were impossible to attain without engaging in unethical and/or illegal acts. Basically, subordinates were given the choice of attaining these targets or being fired. Unfortunately, at least a dozen Qwest employees chose to break the law rather than face dismissal.

The SEC is searching in some of the right places where the violations occurred. The people involved were at least smart enough to do most things crally and left a very sparse written trail. It will either take the SEC getting lucky or employees breaking ranks in order for the SEC to uncover the "smoking guns".

Qwest employees and investors have lost faith in Joe. If this were a democracy, Joe would be voted out of office by a margin of 99 to 1. It will be impossible to turn around the company with a demoralized angry employee body. Some employees are actively working toward undermining Joe. There is even a "Joe Must Go" campaign. Most Qwest investors have already voted with their feet. Joe and Drake have presided over one of the largest destruction of shareholder value in the history of American business. Calpers has named Qwest as the worst managed business in America. Blaming the economy for Qwest's problems is a bunch of bunk.

Joe and the current senior management team have been directly responsible for several billion dollar blunders, such as the Cyber Centers and Bell South stock deal. Many of these blunders are being hidden or glossed over. If you are not getting honest information about these incidents, I recommend that you talk to some lower lever managers.

Please consider your own liability. This letter shall serve notice to you that illegal things have been done at Qwest. On the advice of my lawyer, I am not going to include the specifics in this letter. I am handling it in this manner because if I listed the specifics, then you would have to disclose the information in the depositions from current lawsuits. If you fail take action, I will make sure this letter and specific information gets into the hands of the proper authorities and the hands of the lawyers who have filed class action suits against Qwest. Do the courageous thing and do the right thing, get rid of Joe Nacchio and Drake Tempest before they bankrupt the company and you. I am assuming that you learned something from Enron.

Sincerely,  
Michael

QECX004910



360009403. Qwest not rolling the Q4 capacity is ;

## CONFIDENTIAL

**From:** Wright, Robin  
**To:** Myer, Nate; Churm, Brian  
**CC:** Armstrong, Jackie; Higase, Ted; Young, Chris (AGC); SHERMAN, STEVE; Yaremko, Robert  
**BCC:**  
**Subject:** Qwest not rolling the Q4 capacity{F}  
**Date:** 3/12/2001 1:10:49 PM

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### Attachments:

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The reason that the \$22.5M is not included is that they specifically asked that they keep that amount open to portability anywhere on the GX network. The reason for the language is that in order to prove that this is not a swap, we needed to give them a BPO and portability one time. If they port the capacity once, they lose the BPO. Robert can explain it more, but it was the only way we could get passed swap issues. So again, there is nothing to be done on those circuits at this point. It was a GX deal, they can port it anywhere. They may well ask to activate the capacity in South America. I think you need to get past thinking this is on PC1. We used PC1 only as a placeholder and we'll have to see what they do.

In terms of this quarter's deal, we have the same swap issues so we'll again need to give them a BPO and terms to port the capacity once. We will make sure that the portability is only on AGC this time and I'm sure they will be fine with that.

So, the deal looks like this: \$120M for EAC waves. We'll need to make that portable anywhere in AGC and give them a BPO. We buy \$120M from them. \$20.8M of that is from the 3Q deal. For the rest, we are buying waves, local loops, co-lo, whatever to come to parity. We are swapping \$100M checks this quarter.

Jackie, did I leave anything out?

-----Original Message-----

**From:** Myer, Nate  
**Sent:** Monday, March 12, 2001 3:53 PM  
**To:** Wright, Robin; Churm, Brian  
**Cc:** Armstrong, Jackie; Higase, Ted; Young, Chris (AGC); SHERMAN, STEVE  
**Subject:** RE: Qwest not rolling the Q4 capacity

Robin,

Apologize in advance, but you may have to be clearer than below when measuring financial impact of current Qwest deal proposal on AGC.

My understanding is that \$22.5M PC-1 deal has portability option outside Asia even AFTER activation. That would allow AGC \$0 Q1 revenue recognition in terms of Cash Revenue, Proportionate Cash Revenue or GAAP revenue. Even AFTER PC-1 activation, this would still have to be treated as a lease from AGC financial perspective as Brian points out. The signed contract I have from Jackie states clearly that Qwest has option to port anywhere in world even AFTER PC-1 activation.

300002700. Qwest not rolling the Q4 capacity

It would be better to roll up \$22.5M into larger Qwest deal vs \$20.8M. The \$20.8M is portable within Asia only and AGC already took that revenue credit in Q4, 2000 (GX took credit in Q3, 2000).

Can someone please advise why \$22.5M is no longer being discussed as part of larger deal? I had always heard the \$43.8M (both \$20.8M and \$22.5M) rolling up into larger deal.

Robin - if you are driving this can you give me a call to discuss if you have a moment? Sorry to distract you with AGC financial forecasting, but this may impact how Qwest deal should be structured if given any options.

From the customer perspective, portability after activation is a great addition. However, the AGC finance team has no choice but to record \$0 revenue. Ted and Chris should be aware that these types of contracts will only count as a lease at AGC level. Thanks.

Nate  
310-385-3857

-----Original Message-----

From: Wright, Robin  
Sent: Monday, March 12, 2001 8:07 AM  
To: Churm, Brian  
Cc: Armstrong, Jackie; Higase, Ted; Young, Chris (AGC); Myer, Nate;  
SHERMAN, STEVE  
Subject: RE: Qwest not rolling the Q4 capacity

Let me be clear:

Qwest would like to apply the \$20.8M (which is portable in AGC) to the deal. We need to come up with reciprocal purchases to make up the difference. There is NO CHANGE to the \$22.5M 4Q deal which is portable anywhere in GX. They have not told me they want to activate those circuits on PC1. Unless they told someone else, we don't do anything with those at this point and wait for further instructions from them. When they do activate them on PC1, yes, AGC gets the revenue. Keep in mind that GX already booked this revenue in 2000.

Robin

-----Original Message-----

From: Brian Churm [mailto:bchurm@globalcrossing.com]  
Sent: Sunday, March 11, 2001 4:10 PM  
To: Wright, Robin  
Cc: Jackie Armstrong; Ted Higase; Chris Young; Nate Myer; Steve Sherman  
Subject: RE: Qwest not rolling the Q4 capacity

Steve,

Given that Qwest is not interested in rolling the \$22.5M Q4 deal into this new offer, we will have to pursue plan B.

In their request to have the \$22.5M provisioned on PC1, can we have written

file://D:\EMAIL\0000000000000001\0000000015754EBD.html

7/2/02

into the order/letter  
that this capacity is limited to porting with AGC only? We did it on the Q3 deal, can we do the same here?

This issue is critical to AGC being able to recognize the revenue on the PCI circuits.  
If we don't have the porting restriction added, the entire deal looks like a giant month to month lease.

Brian

-----Original Message-----

From: Wright, Robin [mailto:RWright@GlobalCrossing.com]  
Sent: Friday, March 09, 2001 9:38 AM  
To: Thieme, Doug; SHERMAN, STEVE; Joggerst, Patrick; Fitzpatrick, Brian; Barker, Charles; Mercogliano, John; Churm, Brian; Higase, Ted; Lawlor, Scott; Coghill, Michael; CAREY, DAVID  
Cc: Walsh, David; Myer, Nate; Armstrong, Jackie; Dawson, S. Wallace; Alavanja, Peter T.  
Subject: Qwest

Talked with Susan this morning and she had just been in with Greg Casey to go over status and get his take on the direction of the deal. Some key points:

- \* After Bill Heil had a chance to talk with Brian and Steve, he is clear on the deal and has backed down on the pricing issue. They may argue a bit on the price, but we're pretty close. This, however, is to some degree dependent on what we buy from them. If we are heavy on the wavelength side, we're fine as they have decent margins.
- \* They are interested in applying the 3Q capacity to the deal, not the 4Q. So that's \$20.8M in capacity that was portable within Asia.
- \* They want this to be a \$100M deal. I confirmed (and reconfirmed) that they can exchange checks with us by the end of the quarter and she said absolutely. In fact, they have changed the way the account for revenue and need the cash. This is a good thing for us.
- \* We need to nail down our buy side no later than Wednesday. This now is a bigger deal, so we've got work to do. We were looking at \$50M, now we've got to really work at upping that. And, before you say it, I know buying wavelengths is something we'd prefer not to do. We're with you. But I think we may have to do it if we are going to hit the revenue target. Wally and David will probably have to work this out. Let's just assume we now need to get to \$100M and see how we would do it.
- \* From the contract side, I believe we can just do another letter agreement for the EAC purchase. Jackie is ready to go. On the buy side, they are going to see if they can use the 4Q wavelength deal and do amendments. She is not sure as on the metro side the pricing is not per DS0 mile so it's a bit different. She will try, though. If we do end up doing a deal in Europe, we'll need a separate contract for that. And on the regulated side, there will be a separate contract. She

promised to send me standard contracts so we can start looking at them. At this point she believes they will use Jim Tobin again as the attorney which is good for us. We've worked with Jim on all of our previous deals and work well with him.

\* Jackie, if you want to start drafting the letter in the same format, Brian Churm or Steve Sherman can give you the details. The good news is the deal can be \$100M. The bad news is the deal can be \$100M and we have to figure out how to spend that. Doug, I'll let you run with the buy side if that's still OK.

Thanks,

Robin Wright  
Senior VP, Global Sales and Support  
Global Crossing  
88 Pine Street 30th Floor  
NY, NY 10005  
Office: 212-658-8168  
Fax: 212-658-8093  
Mobile: 917-270-5364  
rwright@globalcrossing.com

**CONFIDENTIAL**

**From:** Armstrong, Jackie  
**To:** Armstrong, Jackie; 'Pham, Phuong N.'; Yaremko, Robert  
**CC:** 'Dan.Nimtz@qwest.com'; 'david.fent@qwest.com'; 'william.heil@qwest.com';  
 'kelly.carter@qwest.com'; 'Susan Chase (E-mail)'; 'kimberly.stout@qwest.com'; 'Tana Simard (E-mail)';  
 'Donna C Day (E-mail)'; 'Denise A Cohen (E-mail)'; 'Tobin, James M.'; 'Matthew Scott (E-mail)';  
 'Jennifer Black (E-mail)'; 'Jim Gallegos (E-mail)'; 'tksimar@qwest.com'; Wright, Robin; Young, Chris  
 (AGC); Higase, Ted; Myer, Nate; Carroll, Charles  
**BCC:**  
**Subject:** Global Crossing Hong to Tokyo IRU {F}  
**Date:** 3/27/2001 12:16:12 PM

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**Attachments:**  
 Qwest side letter 3.27.01.doc

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All  
 I have made a stab at the portability side letter - please see attached  
 Jackie

-----Original Message-----

**From:** Armstrong, Jackie  
**Sent:** Tuesday, March 27, 2001 6:54 AM  
**To:** 'Pham, Phuong N.'; Yaremko, Robert  
**Cc:** 'Dan.Nimtz@qwest.com'; 'david.fent@qwest.com';  
 'william.heil@qwest.com'; 'kelly.carter@qwest.com'; 'Susan Chase  
 (E-mail)'; 'kimberly.stout@qwest.com'; 'Tana Simard (E-mail)'; 'Donna C  
 Day (E-mail)'; 'Denise A Cohen (E-mail)'; 'Tobin, James M.'; 'Matthew  
 Scott (E-mail)'; 'Jennifer Black (E-mail)'; 'Jim Gallegos (E-mail)';  
 'tksimar@qwest.com'; Wright, Robin; Young, Chris (AGC); Higase, Ted;  
 Myer, Nate; Carroll, Charles  
**Subject:** RE: Global Crossing Hong to Tokyo IRU

Here is the revised main agreement with POP addresses and the HK to Tokyo agreement  
 I think these are final  
 Phuong please confirm  
 Rob please sign off on these  
 The PC 1 contract will follow once I have revised maintenance costs  
 Thanks  
 Jackie

-----Original Message-----

**From:** Armstrong, Jackie  
**Sent:** Monday, March 26, 2001 1:55 PM  
**To:** 'Pham, Phuong N.'; Yaremko, Robert  
**Cc:** 'Dan.Nimtz@qwest.com'; 'david.fent@qwest.com'; 'william.heil@qwest.com';  
 'kelly.carter@qwest.com'; 'Susan Chase (E-mail)'; 'kimberly.stout@qwest.com';

file://\COMMERCE\common\O&T\global%20crossing\armstrong\EMAIL\0000000000000001 6/10/02

Tana Simard (E-mail); Donna C Day (E-mail); Denise A Cohen (E-mail);  
Tobin, James M.; Matthew Scott (E-mail); Jennifer Black (E-mail); Jim  
Gallegos (E-mail); 'tksimar@qwest.com'; Wright, Robin; Young, Chris  
(AGC); Higase, Ted; Myer, Nate; Carroll, Charles  
Subject: RE: Global Crossing Hong to Tokyo IRU

I attach the revised PC-1 agreement  
Jackie

-----Original Message-----  
From: Pham, Phuong N. [mailto:PPham@mofo.com]  
Sent: Friday, March 23, 2001 12:14 PM  
To: Jackie Armstrong (E-mail); pthompson@globalcrossing.com;  
ryaremko@globalcrossing.com  
Cc: Dan.Nimtz@qwest.com; david.fent@qwest.com; william.heil@qwest.com;  
kelly.carter@qwest.com; Susan Chase (E-mail); kimberly.stout@qwest.com;  
Tana Simard (E-mail); Donna C Day (E-mail); Denise A Cohen (E-mail);  
Tobin, James M.; Matthew Scott (E-mail); Jennifer Black (E-mail); Jim  
Gallegos (E-mail)  
Subject: Global Crossing Hong to Tokyo IRU

Please disregard my last email. Attached is a revised draft that has been  
corrected to specify the new purchase price.

Phuong N. Pham  
Morrison & Foerster LLP  
425 Market St.  
San Francisco, CA 94105  
(415) 268-6233 (Tel)  
(415) 276-7062 (Fax)

<<Global Crossing to Qwest EAC2 IRU 1Q2001.DOC>>

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This message contains information which may be confidential and privileged.  
Unless you are the addressee (or authorized to receive for the addressee),  
you may not use, copy or disclose to anyone the message or any information  
contained in the message. If you have received the message in error, please  
advise the sender by reply e-mail @mofo.com, and delete the message.  
Thank you very much.

---

Global Crossing North American Networks, Inc.



**Global Crossing North American Networks, Inc.**

March 27, 2001

Qwest Communications Corporation  
555 Seventeenth Street  
Denver, CO 80202

Fax No.: 303 291 1724

Dear Sirs,

We refer to the purchase by Global Crossing North American Networks, Inc ("GCNA") of certain capacity in North America pursuant to a Wave IRU agreement of even date made between GCNA and Qwest Communications Corporation ("Qwest") and the purchase by GCNA's affiliated company Global Crossing Ireland Limited ("GC Ireland") of certain capacity in Europe pursuant to an IRU contract for EuroRings Capacity also of even date and made between KPNQwest and GC Ireland. The agreements referred to in this paragraph are together defined as the "Agreements", GC Ireland and GCNA are each referred to in this letter as the Purchaser and Qwest and KPN Qwest are each referred to in this letter as the Provider.

It is the intention of the parties to the Agreements that following activation of the capacity purchased thereunder, the Purchaser may, subject only to availability and upon thirty days written notice provided to the relevant Provider, be allowed to sell back any Capacity purchased pursuant to the Agreements in exchange for the relevant Purchaser's purchase of an IRU in any of the following: (the "New Assets")

- (i.) Bandwidth capacity between the same or alternative sites in Europe or the USA;
- (ii.) dark fiber between the same or alternative sites in Europe;
- (iii.) conduits anywhere in Europe
- (iv.) local access Facilities in North America [define]

The repurchase price of the Capacity sold back to the Provider will be the amount paid for such Capacity by the Purchaser. The purchase price of the New Assets will be as agreed between the parties and will be no less favorable than the best price offered by the

Provider to any other customer for similar New Assets in transactions of similar volume or, where such assets have not previously been sold by the Provider will be the reasonable market price for similar New Assets in the relevant country in which they are being purchased. Qwest or KPNQwest or their relevant affiliate and GCNA or GC Ireland or their relevant affiliate will enter into a new agreement in respect of the sale and purchase of the New Assets which will be on the same terms as far as practicable given the assets being purchased as those set out in the Agreements. The term of the IRU in the new Assets will be 20 years and the agreement will contain the following clause: "The capacity is physically limited to a specific fiber and wavelength of light within the cable and a specified amount of capacity. Provider shall not move the capacity to another fiber or wavelength of light without Purchaser's prior written consent." In the event the New Assets constitute conduit the agreement will contain appropriate access rights to allow the Purchaser free and unfettered access to conduit for maintenance and installation of cables.

Any maintenance costs paid or payable by Global Crossing Ireland Limited in respect of capacity purchased in Europe under the agreement referred to above will be credited towards the purchase price of the New Assets.

By signing below the parties to this Agreement agree to the terms as set out above.

Accepted and agreed

Accepted and agreed

Global Crossing North America  
Networks, Inc.

Qwest Communications Corporation

\_\_\_\_\_

Name: \_\_\_\_\_ Name: \_\_\_\_\_  
Title: \_\_\_\_\_ Title: \_\_\_\_\_

\*P&OM

Director: \_\_\_\_\_

Date: \_\_\_\_\_

\_\_\_\_\_



Global Crossing Ireland Limited

\_\_\_\_\_  
Name:

Title:

\*This Agreement shall not be binding upon Qwest until countersigned by the P&OM Director and Executive Vice President, Wholesale Markets (or an authorized designee) for Qwest.

By signing below the parties to this Agreement agree to the terms as set out above.

Accepted and agreed

Asia Global Crossing  
Asia Pacific Commercial Limited

Accepted and agreed

Qwest Communications Corporation

\_\_\_\_\_  
Name:  
Title:

Name:  
Title:

\*P&OM

Director: \_\_\_\_\_

Date: \_\_\_\_\_

\_\_\_\_\_  
\*This Agreement shall not be binding upon Qwest until countersigned by the P&OM Director and Executive Vice President, Wholesale Markets (or an authorized designee) for Qwest.

---

**From:** Chase, Susan  
**Sent:** Wednesday, March 28, 2001 1:23 AM  
**To:** Hoaglund, Roger; Dalton, Joe/Bischoff, Britt  
**Cc:** Pye, Martha; Lau, Ross; Heil, William (Bill); Casey, Greg/Hawkins, Julie; Day, Donna; Denise A. Caprio, Darryl; Rivera, Rick; Petrie, Deb; Welch, Pat; Suson, Michael J; 'axmcken@uswest.com'; Scott, Matthew  
**Subject:** RE: Global Crossing - A proposal

Roger,

To confirm what we discussed earlier we will allow GC to take the discount back to Jan 1, 2001. However, I have been informed that this must come in as a billing dispute.

We have all the agreements ready to sign. We will need to add some circuits to the existing wave and European agreements to show the detail of the total amounts. Legally we can sign and add in parallel. The acceptance letters will be done in the am. I am attempting to get Greg to sign before he leaves for the airport. We will need to make sure we have the invoices done and the wire transfer ready to go in the am. This will allow us to meet our deadlines for the NWT deal.

I am attaching the sell side of the NWT agreement to have Greg sign at the same time. Since the buy side is not complete and Ross is in Denver maybe he can sign what we are buying from NWT in an effort to get it done by the dead line.

Thanks again for your help in resolving our Metro IRU problems.

In summary,

Global Crossing is buying 60 million in US Wave service, with portability. With an additional 45 million for European services with the ability to port to dark fiber. Grand total is 105 million in bookable revenue to Qwest. Global has also committed to a binding MOU for an additional 15 million in Metro services.

Qwest is buying 110 million dollar North Asia ring with portability on all of EAC. Additionally, we are purchasing 30 million of PCI capacity at a price that is 15,000,000 dollars under what would pay at our existing inventory rates. Total purchase is 140,000,000 million less the 20 million we paid in the 3rd quarter brings the deal down to 120,000,000.

Susan

PS

Audrey McKinney has been awesome to work with. I now feel as if I know more than I will ever want to know about inregion issues. Thanks, Audrey for coming through with getting us to the table on the issues.

-----Original Message-----

**From:** Hoaglund, Roger  
**Sent:** Tuesday, March 27, 2001 8:26 PM  
**To:** Chase, Susan; Dalton, Joe/Bischoff, Britt  
**Cc:** Pye, Martha; Lau, Ross; Heil, William (Bill)  
**Subject:** RE: Global Crossing - A proposal

QEC 102556

Importance: High

I think we're close. Here's quick comments:

Ross, is the Asian Northern Ring for resale/inventory or for PPE (ie we'll lease services off it)?

I wouldn't do the retro credit to January 1.

Finally, make sure that the 30% is the effective discount, not necessary incremental (I think they understand this point).

Roger

-----Original Message-----

From: Chase, Susan  
Sent: Tuesday, March 27, 2001 6:59 PM  
To: Dalton, Joe/Bischoff, Britt  
Cc: Roaglund, Roger  
Subject: FW: A proposal  
Importance: High

Joe,

What do you think. I think we compromise and say ok. I will go and try and get them to go to 15. I agree with Robin we are forcing them to take stuff they do not have a need for.

Susan

-----Original Message-----

From: Wright, Robin [mailto:RWright@GlobalCrossing.com]  
Sent: Tuesday, March 27, 2001 6:48 PM  
To: Chase, Susan  
Subject: A proposal

> Susan,  
> We have had considerable discussions internally about how to handle  
> the local access IRUs. You know, of course, that our original intent was  
> to commit as much as possible to the access IRUs, given that this was our  
> primary driver in our purchases. Since we have no assurance that this is  
> possible, we have internal approval to do the following:  
> \* We commit to an extra \$10M in wavelengths IRUs in the US under the  
> terms of the existing wave agreement. So, we make one modification in the  
> amount (increased to \$55M) and that is ready to sign  
> \* We commit to purchase local access IRUs for an additional \$20M,  
> provided that we are able to reach an agreement that allows us to buy  
> these in both the existing and new facilities. The reason for this is  
> that from our analysis, we can't get to the \$20M without new and existing.  
> \* In exchange for the additional commitment of \$10M, Qwest will give  
> a discount of 30%, retroactive to January 1, 2001. The term on the leases  
> will be 5 years.  
> \* All IRUs are fully portable - ie we can swap the circuits we buy for  
> other circuits of the same or different values provided the overall value

> is the same  
 > \* If you are having trouble drawing up the MOU and the specifics  
 > around that, perhaps we can agree to continue to work on wording but not  
 > let our deadline of signing today hold us up. We can each wire money  
 > tomorrow; you the \$120M, us the \$100M and the \$20M MOU can follow. We  
 > absolutely want to commit to the additional \$20M, as soon as we are  
 > certain that both new and existing locations can be part of the deal.  
 >  
 > We understand your concern about the fact that you are paying more  
 > this quarter, but I would ask you to understand how far off we are from  
 > our original intent. Last Friday, in the interest of moving this forward,  
 > we agreed to up our commitment on the waves \$15M and the Europe capacity  
 > \$15M. With this additional \$10M, the total is now \$40M and we feel we are  
 > being more than accommodating. We also believe that the \$20M MOU  
 > outstanding will help us move this along quickly, which I know is  
 > important to all of us.  
 > We're still at the office, waiting to wrap this up. We still do not  
 > have feedback on portability so both the wavelength and Europe agreements  
 > are not ready to sign.  
 >  
 > Thanks, Robin  
 >

**Calis, Peter**

---

**From:** Calis, Peter  
**Sent:** Thursday, March 29, 2001 10:46 AM  
**To:** Alavanja, Peter T.  
**Cc:** Lawlor, Scott; CAREY, DAVID; Wright, Robin  
**Subject:** RE: Qwest Update (URGENT INFORMATION NEEDED)

Peter,  
 This is a tricky one!  
 I understand that we commit for 45 M for "wavelengths" in Europe, but to be converted into fiber and/or duct at a later stage...  
 April 10 I have a meeting scheduled with KPN Qwest to discuss those details...so at this point of time I don't know which fibers or ducts...  
 But since we should specify some detail here, I would suggest to detail our target for this 45 M: 2 ducts on the route Frankfurt - Nuremberg - Prague - Vienna - Munich, for a total route length of some 1200 Km.

Peter

-----Original Message-----

**From:** Alavanja, Peter T.  
**Sent:** Wednesday, March 28, 2001 4:16 PM  
**To:** Calis, Peter; Lawlor, Scott; CAREY, DAVID  
**Subject:** FW: Qwest Update (URGENT INFORMATION NEEDED)  
**Importance:** High

Gentlemen:

I need to finalize the business case for the Qwest deal. Robin Wright suggested I contact each of you to answer the questions highlighted below. I would appreciate any information you could provide.

Regards,

Peter

**Peter T. Alavanja**  
 Director  
 Business Development  
 Global Product Management  
 Broadband Services  
 631-205-3943 (phone)  
 631-205-3941 (fax)  
 973-610-1319 (cell)  
 PTAAlavanja@globalcrossing.com  
 << File: Alavanja, Peter T..vdi >>

-----Original Message-----

**From:** Wright, Robin  
**Sent:** Wednesday, March 28, 2001 9:07 AM  
**To:** Alavanja, Peter T.  
**Subject:** RE: Qwest Update

see below

-----Original Message-----

**From:** Alavanja, Peter T.  
**Sent:** Wednesday, March 28, 2001 9:05 AM  
**To:** Wright, Robin  
**Subject:** RE: Qwest Update  
**Importance:** High

Robin:

You must be full of energy this morning. I've got some questions on the latest changes on the Qwest deal (see below).

Peter

**Peter T. Alavanja**  
 Director  
 Business Development  
 Global Product Management  
 Broadband Services  
 631-205-3943 (phone)  
 631-205-3941 (fax)  
 973-610-1319 (cell)  
 PTAlavanja@globalcrossing.com  
 << File: Alavanja, Peter T..vcf >>

-----Original Message-----

**From:** Wright, Robin  
**Sent:** Wednesday, March 28, 2001 2:39 AM  
**To:** Jogerst, Patrick; Fitzpatrick, Brian; Barker, Charles; Walsh, David; Dole, Jim; Dawson, S. Wallace; Yaremko, Robert; Alavanja, Peter T.; Tingley, Jon B.; Catts, Peter; Coghill, Michael; CAREY, DAVID; Schroeder, Thomas; Croan, Quinn; Thieme, Doug; SHERMAN, STEVE  
**Subject:** Qwest Update

We're just about wrapped up here, waiting for a couple more clean documents and signatures from Asia and Europe. Wanted to get everyone caught up on what we did. We had to make some compromises here at the end of a very long night:

- Sell side remains the same: \$140,800,000 for EAC and PC1, less \$20,800,000 paid in 3Q, net cash to us this quarter: \$120,000,000
- We committed to
  - \$45M in Europe (dark fiber, conduit)  
 How many fibers does this include in Europe? **[Wright, Robin]** This was not specified, it's \$45M worth. I believe Peter talked about 12 pairs, but you should check with him.
  - \$60M in waves in the US  
 How many waves in the US? What are the city pairs? **[Wright, Robin]** Again, our choice anywhere. Dave Carey or Scott Lawlor can help
  - Total cash to be paid \$105,000,000
  - Committed additional \$15M to optical entrance, if/when Qwest can figure out how to offer us
  - Got 30% discount on existing base of local access leases which Jim and team figured NPV to be around \$10-\$12M
  - The \$115M is all portable to any services

I will provide all the documentation to the interested parties as soon as we get all signatures back. Patrick and I will also be convening a meeting in the first couple of weeks of the quarter to review all purchase documents and work out plans to productize, integrate or sell what we bought.

Thanks to everyone for your help on this.

Robin

Global Crossing North American Networks, Inc.



## Global Crossing North American Networks, Inc.

March 27, 2001

Qwest Communications Corporation  
555 Seventeenth Street  
Denver, CO 80202

Fax No.: 303 291 1724

Dear Sirs,

We refer to the purchase by Global Crossing North American Networks, Inc. ("GCNA") of certain capacity in North America pursuant to a Wave IRU agreement of even date made between GCNA and Qwest Communications Corporation ("Qwest") and the purchase by GCNA's affiliated company Global Crossing Ireland Limited ("GC Ireland") of certain capacity in Europe pursuant to an IRU contract for EuroRings Capacity also of even date and made between Qwest and GC Ireland. The agreements referred to in this paragraph are together defined as the "Agreements", GC Ireland and GCNA are each referred to in this letter as the Purchaser and Qwest is referred to in this letter as the Provider.

It is the intention of the parties to the Agreements that following activation of the capacity purchased thereunder ("Capacity"), the Purchaser will, subject to availability, upon mutual consent of the parties and upon thirty days written notice to the Provider, be allowed to sell back Capacity purchased pursuant to the Agreements in exchange for the relevant Purchaser's purchase of an IRU, in any of the following: (the "New Assets")

- (i.) bandwidth capacity between the same or alternative sites in Europe or the USA;
- (ii.) dark fiber between the same or alternative sites in Europe or the USA;
- (iii.) conduits anywhere in Europe
- (iv.) entrance facilities in North America, which provides connectivity to a mutually agreed upon point.

The aggregate purchase price of the New Assets will be at least equal to the repurchase price of the Capacity. Subject to this the Purchaser may purchase New Assets in any amounts or units of capacity it requests.

Confidential Treatment Requested by Qwest Communications International, Inc.

The repurchase price of the Capacity sold back to the Provider will be the amount paid for such Capacity by the Purchaser. The purchase price of the New Assets will be as agreed between the parties and will be no less favorable than the best price offered by the Provider to any other customer for similar New Assets in transactions of similar volume or, where such assets have not previously been sold by the Provider will be the reasonable market price for similar New Assets in the relevant country in which they are being purchased. Qwest or its relevant affiliate and GCNA or GC Ireland or their relevant affiliate will enter into a new agreement in respect of the sale and purchase of the New Assets which will be on the same terms, as far as practicable given the New Assets being purchased, as those set out in the Agreements. The term of the IRU in the new Assets will be 20 years and the agreement will contain the following clause: "The capacity is physically limited to a specific fiber and wavelength of light within the cable and a specified amount of capacity. Provider shall not move the capacity to another fiber or wavelength of light without Purchaser's prior written consent." In the event the New Assets constitute conduit the agreement will contain appropriate access rights to allow the Purchaser free and unfettered access to conduit for maintenance and installation of cables.

Any maintenance costs paid or payable by Global Crossing Ireland Limited in respect of capacity purchased in Europe under the agreement referred to above will be credited towards the purchase price of the New Assets.

The Provider will use good faith efforts to accommodate the requests of the Purchaser to resell Capacity to the Provider and to allow the Purchaser to purchase New Assets under the terms of this letter.

In the event of any conflict between the terms of this letter and the Agreements the terms of this letter will prevail.



By signing below the parties to this Agreement agree to the terms as set out above.

Accepted and agreed

Global Crossing North America  
Networks, Inc.

Accepted and agreed

Qwest Communications Corporation

Name:  
Title:

Global Crossing Ireland Limited

Name:  
Title:

Approved as to legal form

Name:  
Title:

\*Qwest P&OM Director

Date 5/25/01

\*This Agreement shall not be binding upon Qwest until countersigned by the P&OM Director and Executive Vice President, Wholesale Markets (or an authorized designee) for Qwest.

MMY 09 1997 21:17 FR  
FROM QWEST-LITIGATION SUPPORT

TO 7138128438 P.17  
(RED) 3.28'01 2:48/ST. 2.47/NO. 4861183001 F.17

By signing below the parties to this Agreement agree to the terms as set out above.

Accepted and agreed

Global Crossing North America  
Networks, Inc.

Name:  
Title:

Global Crossing Ireland Limited

Name:  
Title:

\*Qwest P&OM Director:

Date:

\*This Agreement shall not be binding upon Qwest until countersigned by the P&OM  
Director and Executive Vice President, Wholesale Markets (or an authorized designee) for  
Qwest.

Accepted and agreed

Qwest Communications Corporation

Name: GREG CASEY  
Title: EVP

Approved as to legal form

MAR 27 2001

3 C:\WINDOWS\DESKTOP\QW Litigation\MOU.doc

MMY 09 1997 16:58

30672+27573 PAGE.17

Confidential Treatment Requested by Qwest Communications International, Inc. QEC 00166

1787-00-0001 00-00

1711-00-0001 00-00

1711-00-0001 00-00

28 MAR 2001 8:44

GLOBAL CROSSING IRL

NO. 0077 P. 2/3


By signing below the parties to this Agreement agree to the terms as set out above.

Accepted and agreed

Accepted and agreed

Global Crossing North American  
Networks, Inc.

Qwest Communications Corporation

  
Name: DAVID WALSH  
Title: President

\_\_\_\_\_  
Name:  
Title:

Global Crossing Ireland Limited

  
Name: DAVID WALSH  
Title: Director

\*Qwest P&amp;OM Director: \_\_\_\_\_

Date: \_\_\_\_\_

\*This Agreement shall not be binding upon Qwest until countersigned by the P&OM  
Director and Executive Vice President, Wholesale Markets (or an authorized designee)  
\*for Qwest.

C:\TEMP\QSC\Forability\MOU.doc

\*Confidential Treatment Requested by Qwest Communications International, Inc.

QEC 00167

**CONFIDENTIAL**

**From:** Stout, Kimberly  
**To:** Armstrong, Jackie; Wright, Robin; Stout, Kimberly; ""ripsm@perkinscoie.com""; Chase, Susan (Wholesale); Schreuder, Jan; ""jeanlouse.colen@kpnqwest.com""; Churm, Brian; Higase, Ted; Thieme, Doug; SHERMAN, STEVE; Caprio, Darryl  
**CC:** Calis, Peter; Young, Chris (AGC); Carroll, Charles; Yaremko, Robert; Gallegos, James; Simard, Tana  
**BCC:**  
**Subject:** Next Steps {F}  
**Date:** 6/21/2001 7:13:00 AM

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**Attachments:**  
Side Letter.doc

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Thanks Jackie for preparing this letter. I have redlined my comments and highlighted them as well. We still need Qwest legal and accounting to sign off on this. Marty, can you coordinate those efforts and get back to Jackie, et al.??? Thanks, Kim

-----Original Message-----

**From:** Armstrong, Jackie [mailto:J.Armstrong@GlobalCrossing.com]  
**Sent:** Wednesday, June 20, 2001 9:38 PM  
**To:** Armstrong, Jackie; Wright, Robin; ""kimberly.stout@qwest.com""  
""ripsm@perkinscoie.com""; ""susan.chase@qwest.com""  
""jan.schreuder@qwest.com""; ""jeanlouse.colen@kpnqwest.com""; Churm, Brian; Higase, Ted; Thieme, Doug; SHERMAN, STEVE; ""darryl.caprio@qwest.com""  
**Cc:** Calis, Peter; Young, Chris (AGC); Carroll, Charles; Yaremko, Robert  
**Subject:** RE: Next Steps

Please find attached draft side letter  
Marty I will be reachable on 818 707 8134 tomorrow.  
Jackie

-----Original Message-----

**From:** Armstrong, Jackie  
**To:** Armstrong, Jackie; Wright, Robin; ""kimberly.stout@qwest.com""; ""ripsm@perkinscoie.com""; ""susan.chase@qwest.com""; ""jan.schreuder@qwest.com""; ""jeanlouse.colen@kpnqwest.com""; Churm, Brian; Higase, Ted; Thieme, Doug; SHERMAN, STEVE; ""darryl.caprio@qwest.com""  
**Cc:** Calis, Peter; Young, Chris (AGC); Carroll, Charles; Yaremko, Robert  
**Sent:** 6/20/01 11:01 PM  
**Subject:** RE: Next Steps

attached revised dark fibre agreement

-----Original Message-----

From: Armstrong, Jackie  
 To: Armstrong, Jackie; Wright, Robin; "kimberly.stout@qwest.com";  
 "ripsm@perkinscoie.com"; "susan.chase@qwest.com";  
 "jan.schreuder@qwest.com"; "jeanlouse.colen@kpnqwest.com";  
 Churm, Brian; Higase, Ted; Thieme, Doug; SHERMAN, STEVE;  
 "darryl.caprio@qwest.com";  
 Cc: Calis, Peter; Young, Chris (AGC); Carroll, Charles; Yaremko, Robert  
 Sent: 6/20/01 8:56 PM  
 Subject: RE: Next Steps

All

Here are the revised documents for US backhaul, US waves (if relevant), Euro waves, Euro duct and Euro waves from KPN. The only issue not marked is the tax issue discussed yesterday which is to be the subject of a conference call tomorrow.  
 Jackie

-----Original Message-----

From: Armstrong, Jackie  
 To: Armstrong, Jackie; Wright, Robin; "kimberly.stout@qwest.com";  
 "ripsm@perkinscoie.com"; "susan.chase@qwest.com";  
 "jan.schreuder@qwest.com"; "jeanlouse.colen@kpnqwest.com";  
 Churm, Brian; Higase, Ted; Thieme, Doug; SHERMAN, STEVE;  
 "darryl.caprio@qwest.com";  
 Cc: Calis, Peter; Young, Chris (AGC); Carroll, Charles; Yaremko, Robert  
 Sent: 6/20/01 7:52 PM  
 Subject: RE: Next Steps

Revised sale agreement with new bank details attached  
 Jackie

-----Original Message-----

From: Armstrong, Jackie  
 To: Wright, Robin; "kimberly.stout@qwest.com"; "ripsm@perkinscoie.com";  
 "susan.chase@qwest.com"; "jan.schreuder@qwest.com";  
 "jeanlouse.colen@kpnqwest.com"; Churm, Brian; Higase, Ted; Thieme,  
 Doug; SHERMAN, STEVE; "darryl.caprio@qwest.com";  
 Cc: Calis, Peter; "Chris."; Carroll, Charles; Armstrong, Jackie;  
 Yaremko, Robert  
 Sent: 6/20/01 7:08 PM  
 Subject: RE: Next Steps

all

please see attached sale agreement as just discussed  
 Rob - please review again

Jackie

-----Original Message-----

From: Wright, Robin

To: Armstrong, Jackie; 'kimberly.stout@qwest.com';  
'ripsm@perkinscoie.com'; 'susan.chase@qwest.com';  
'jan.schreuder@qwest.com'; 'jeanlouse.colen@kpnqwest.com'; Churm, Brian;  
Higase, Ted; Thieme, Doug; SHERMAN, STEVE; 'darryl.caprio@qwest.com'

Cc: Calis, Peter

Sent: 6/19/01 10:39 PM

Subject: Next Steps

Importance: High

First, thanks to you all for the hard work today, we're nearly there.  
Attached is the spreadsheet with the agreements and action items. A  
couple of other notes:

Jan and Jean Louis will work on pricing first thing tomorrow, then head  
to our offices at 88 Pine (at Water Street) to finalize the commercial  
terms with Doug, Steve and Peter (via phone)

We'll have a conference call at 6 pm to review final documents. Here  
are the details:

Wednesday 6/20

6 pm EST

Dial in 1-888-447-1240

Passcode: 684098

Peter, I have copied you on this for information, but you do not need to  
join the call. Of course you are welcome, but we should have the  
details ironed out before then.

Thanks, Robin

<<Qwest 2Q Status.doc>>

<<Qwest sale agmt 6.19.01.doc>>

<<Qwest sale agmt 6.19.01.doc>>

<<Backhaul[2].doc>> <<DomesticWave[1].doc>> <<EuroWave[1].doc>>

<<KPNQDuct[1].doc>> <<KPNQCapacity[1].doc>>

<<Dark Fibre.doc>>

Global Crossing North American Networks, Inc.



**Global Crossing North American Networks, Inc.**

June 22, 2001

Qwest Communications Corporation  
555 Seventeenth Street  
Denver, CO 80202

Fax No. 303.291.1724

Dear Sirs:

We refer to the purchase by Global Crossing North American Networks, Inc ("GCNA") or its affiliated company Global Crossing Ireland Limited ("GC Ireland") of the following:

1. Certain capacity in the United States with a purchase price of \$8,000,000 (the "US Capacity") to be purchased pursuant to the Amendment No. 1 to the IRU Agreement made between GCNA and Qwest Communications Corporation ("Qwest").
2. Telecommunications Ducts with a purchase price of \$38,000,000 (the "Ducts") to be purchased pursuant to an Agreement for the sale of Telecommunications Ducts on KPNQwest's Eastern European Ring made between [Qwest] and GC Ireland.
3. Dark fiber in Europe with a purchase price of \$17,000,000 ("Dark Fiber") to be purchased pursuant to a Dark Fiber IRU Agreement made between [Qwest] and GC Ireland.
4. Certain wavelength capacity in Europe with a purchase price of \$10,000,000 (the "European Capacity") to be purchased pursuant to Amendment No. 1 to the IRU Agreement made between GC Ireland and Qwest.
5. Certain wavelength capacity in Europe with purchase price of \$8,000,000 (the "KPN European Capacity") to be purchased pursuant to an agreement between KPNQwest Assets Suisse Sarl and GC Ireland.

The agreements referred to above are defined herein as the "Agreements", either of GC Ireland or GCNA as appropriate are referred to herein as the "Purchaser" and Qwest or [KPNQwest] is referred to as the "Provider".

### Capacity

Following activation of the US Capacity, the European capacity and the KPN European Capacity, upon mutual agreement of the Parties, the Purchaser will, subject to availability and upon thirty days written notice to the relevant Provider, be allowed to sell back the whole or part of the Capacity in exchange for the relevant Purchaser's purchase of an IRU in any other bandwidth capacity between the same or alternative sites in Europe or the USA (the "New Capacity"). [Note: we cannot apply this to the KPN European Capacity since it is a different company. Capacity in the U S sole by Qwest can be sold back in exchange for Capacity in Europe sold by Qwest or vice versa, but it cannot apply to KPNQ Capacity]

The aggregate purchase price of the New Capacity will be at least equal to the repurchase price of the Capacity. Subject to this the Purchaser may purchase the New Capacity in any amounts or units of capacity it requests.

The repurchase price of the Capacity sold back to the Provider will be the amount paid for such Capacity by the Purchaser. The purchase price of the New Capacity will be as agreed between the parties based on then current market conditions and will be no less favorable than the best price offered by the Provider to any other customer for similar New Capacity in transactions of similar volume. The Provider or its relevant affiliate and GCNA or GC Ireland or their relevant affiliate will enter into a new agreement in respect of the sale and purchase of the New Capacity which will be on the same terms, as far as practicable given the New capacity being purchased, as those set out in the Agreements. The term of the IRU in the New Capacity will be 20 years and the agreement will contain the following clause. "The capacity is physically limited to a specific fiber and wavelength of light within the cable and a specified amount of capacity. Provider shall not move the capacity to another fiber or wavelength without Purchaser's prior written consent."

### Ducts

Following purchase of the Ducts GC Ireland will, upon mutual agreement of the parties and subject to availability, and upon thirty days written notice to Qwest be allowed to sell back the whole or part of the Ducts in exchange for GC Ireland's purchase of an IRU in ducts elsewhere in Europe or the United States (the "New Ducts").

The aggregate purchase price of the New Ducts will be at least equal to the repurchase price of the Ducts. Subject to this the Purchaser may purchase the New Ducts in separate segments in Europe and the United States.

The repurchase price of the Ducts sold back to Qwest will be the amount paid for the Ducts by GC Ireland. The purchase price of the New Ducts will be as agreed between the parties based on then current market conditions and will be no less favorable than



Global Crossing North American Networks, Inc.

the best price offered by the Provider to any other customer for similar New Ducts in transactions of similar volume or where this is not relevant will be the reasonable market price in the country of purchase. Qwest or its relevant affiliate and GC Ireland or its relevant affiliate will enter into a new agreement in respect of the sale and purchase of the New Ducts which will be on the same terms, as far as practicable given the New Ducts being purchased, as those set out in the Agreements. The term of the IRU in the New Ducts will be 20 years.

#### **Dark fiber**

Following purchase of the Dark Fiber GC Ireland will, upon mutual consent of the Parties and subject to availability, and upon thirty days written notice to Qwest be allowed to sell back the whole or part of the Dark Fiber in exchange for GC Ireland's purchase of an IRU in dark fiber elsewhere in Europe or the United States (the "New Dark Fiber").

The aggregate purchase price of the New Dark Fiber will be at least equal to the repurchase price of the Dark Fiber. Subject to this the Purchaser may purchase the New Dark Fiber in any different cable systems in Europe and the United States.

The repurchase price of the Dark Fiber sold back to Qwest will be the amount paid for the Dark Fiber by GC Ireland. The purchase price of the New Dark Fiber will be as agreed between the parties based on then current market conditions and will be no less favorable than the best price offered by Qwest to any other customer for similar New Dark Fiber in transactions of similar volume or where this is not relevant will be the reasonable market price in the country of purchase. Qwest or its relevant affiliate and GC Ireland or its relevant affiliate will enter into a new agreement in respect of the sale and purchase of the New Dark Fiber which will be on the same terms, as far as practicable given the New Dark Fiber being purchased, as those set out in the Agreements. The term of the IRU in the New Dark Fiber will be 20 years.

#### **Maintenance Costs**

The Provider hereby agrees that all maintenance costs due under the Agreements will be waived for a period of one year from the date of this letter agreement.

In the event of any conflict between the terms of this letter and the Agreements the terms of this letter will prevail.

By signing below the parties to this Agreement agree to the terms as set out above.

Global Crossing North American Networks, Inc.

Accepted and Agreed

Global Crossing North American  
Networks, Inc.

\_\_\_\_\_  
Name:  
Title:

Global Crossing Ireland Limited

\_\_\_\_\_  
Name:  
Title:

\*Qwest P&OM Director: \_\_\_\_\_  
Date: \_\_\_\_\_

\*This Agreement shall not be binding upon Qwest until countersigned by the P&OM  
Director and Executive Vice President, Wholesale Markets (or an authorized designee)  
for Qwest.

From: STEVE SHERMAN [steve\_sherman@globalcrossing.com]  
 Sent: Friday, June 22, 2001 8:53 AM  
 To: Jackie Armstrong; jan.schreuder@qwest.com; rwright@globalcrossing.com;  
 kimberly.stout@qwest.com; ripsm@perkinscoie.com; susan.chase@qwest.com;  
 brian.churm@asiaglobalcrossing.com; ted.higase@asiaglobalcrossing.com; douglas.thieme;  
 darryl.caprio@qwest.com; jeanlouis.colen@kpnqwest.com; denise.cohen@qwest.com;  
 donna.day@qwest.com; Peter Calis; chris.young@asiaglobalcrossing.com;  
 charlie.carroll@asiaglobalcrossing.com; Robert Yaremko; jhgalle@qwest.com;  
 tksimar@qwest.com  
 Subject: Re: How about the O&M holidays? Update as of Thursday

Jackie,

Just got off the phone with Peter Calis, and he is OK with the \$425/km per Year,  
 per 2 for Maintenance Costs on the Ducts.

Steve S.

STEVE SHERMAN wrote:

> Jackie,  
 >  
 > My understanding in speaking with Peter Calis and KPN/Qwest previously is that  
 > the Ducts(Eschenfeld-Prague-Vienna-Munich) are only 85% complete, and the  
 > entire route will not be complete until July sometime.  
 >  
 > Also, a 70km section(NorreNeal-Esbjerg) for the Dark Fiber route between  
 > Hamburg and Copenhagen is not complete until July either.  
 >  
 > GX shouldn't pay OA&M on the above 2 routes until they're are 100% available,  
 > everything else on the GX Purchase list is ready NOW. I've asked Peter Calis to  
 > validate this, and to confirm the Maintenance costs of \$425km per year for the  
 > ducts.  
 >  
 > Steve S.  
 >  
 > "Armstrong, Jackie" wrote:  
 >  
 >  
 > > i spoke to Marty about this and my suggestion is (i need to check this with  
 > > Robin as it was too late last night)thats ok with regard to the ducts and  
 > > dark fiber which we agreed to take. i believe a small portion of the dark  
 > > fiber is not ready and you will give us something we dont want until it is  
 > > ready - clearly we dont want to pay OA&M on that portion from June 30 - if  
 > > we have to for an accounting reason then there has to be some credit to us  
 > > somewhere  
 > > Jackie  
 > > -----Original Message-----  
 > > From: Schreuder, Jan  
 > > To: Armstrong, Jackie; Wright, Robin; Stout, Kimberly;  
 > > 'ripsm@perkinscoie.com'; Chase, Susan (Wholesale);  
 > > Churm, Brian; Higase, Ted; Thieme, Doug; SHERMAN, STEVE; Caprio, Darryl;  
 > > 'Colen, Jean Louis'; Cohen, Denise A; Day, Donna C  
 > > Cc: Calis, Peter; Young, Chris (AGC); Carroll, Charles; Yaremko, Robert;

```

> > Gallegos, James; SHERMAN, STEVE;
> > Sent: 6/22/01 12:53 AM
> > Subject: How about the O&M holidays? Update as of Thursday
> > Importance: High
> >
> > I do not feel comfortable with the maintenance clause. We offer you
> > DF/Ducts/capacity for immediate use, therefor O&M costs should apply
> > from
> > RFS date.
> >
> > I also think we need it from accounting perspective.
> >
> > I would like to discuss that in the morning.
> >
> > regards,
> >
> > Jan
> >
> > -----Original Message-----
> > From: Armstrong, Jackie
> > To: Wright, Robin; 'Schreuder, Jan' '; 'Stout, Kimberly ';
> > 'ripsm@perkinscoie.com ' ' ' ' ' '; 'Chase, Susan (Wholesale) ';
> > Churm, Brian; Higase, Ted; Thieme, Doug; SHERMAN, STEVE; 'Caprio, Darryl
> > ';
> > 'Colen, Jean Louis' '; 'denise.cohen@qwest.com' ';
> > 'donna.day@qwest.com'
> >
> > Cc: Calis, Peter; Young, Chris (AGC); Carroll, Charles; Yaremko, Robert;
> > 'Gallegos, James '; 'Simard, Tana '
> > Sent: 21-6-2001 22:43
> > Subject: RE: Update as of Thursday
> >
> >
> > Revises side letter attached
> > -----Original Message-----
> > From: Wright, Robin
> > To: 'Schreuder, Jan'; Armstrong, Jackie; Stout, Kimberly;
> > 'ripsm@perkinscoie.com ' ' ' ' ' '; Chase, Susan (Wholesale);
> > Churm,
> > Brian; Higase, Ted; Thieme, Doug; SHERMAN, STEVE; Caprio, Darryl;
> > 'Colen,
> > Jean Louis'; 'denise.cohen@qwest.com'; 'donna.day@qwest.com'
> > Cc: Calis, Peter; Young, Chris (AGC); Carroll, Charles; Yaremko, Robert;
> > Gallegos, James; Simard, Tana
> > Sent: 6/21/01 7:59 PM
> > Subject: Update as of Thursday
> >
> > Thanks again for the hard work.
> >
> > <<Qwest 2Q Status Thurs.doc>>
> >
> > <<Side Letter[2].doc>>

```

From: Armstrong, Jackie [JArmstrong@GlobalCrossing.com]  
 Sent: Sunday, June 24, 2001 6:53 PM  
 To: 'Rips, Martin-LA'; Wright, Robin; SHERMAN, STEVE; Thieme, Doug  
 Cc: 'jjblack@uswest.com'; 'wendy.wagner@qwest.com'; 'kelly.carter@qwest.com';  
 'kimberly.stout@qwest.com'; 'erin.wray@kpnqwest.com'; 'graham.king@kpnqwest.com';  
 'matthew.scott@qwest.com'; 'susan.chase@qwest.com'; 'jhgalle@qwest.com';  
 'casper.winkelman@kpnqwest.com'  
 Subject: RE: Comments

Marty  
 Dealing with each of your points in turn

#### Atlantic Crossing

1. Fine - its the same CPA as referred to in the main agreement

#### EAC

1. It should say EAC Capacity - will change
2. OK - will change
3. Wording is same as used on all previous deals - if you want to say price instead thats fine with me?

#### Portability

1. We wont accept this. We have had this argument every quarter and it has previously been accepted that as we are only activating capacity we are buying by 30 June because this is Qwests requirement, it would be unreasonable that in say six months time when we activate what we actually need we suffered because of a fall in the price.

#### Dark fiber

1. Degredation of fiber is not really relevant in a capacity sale as capacity can be routed in different ways unlike buying a fiber so there is no comparison in the CPA. My business people tell me that Qwest should have a lifetime guarantee from the manufacturer and so it should not be a real risk.

2. Sounds fine to me but I will have to run it past our accounting people.

3. Fine

Marty

I dont think there is anything more we can without business folks so i will leave you to enjoy the rest of your day and give you a call in the morning.  
 Jackie

-----Original Message-----

From: Rips, Martin-LA  
 To: Armstrong, Jackie  
 Cc: 'jjblack@uswest.com'; 'wendy.wagner@qwest.com';  
 'kelly.carter@qwest.com'; 'kimberly.stout@qwest.com';  
 'erin.wray@kpnqwest.com'; 'graham.king@kpnqwest.com';  
 'matthew.scott@qwest.com'; 'susan.chase@qwest.com'; 'jhgalle@qwest.com';  
 'casper.winkelman@kpnqwest.com'  
 Sent: 6/24/01 5:02 PM  
 Subject: Comments

Jackie

I will call you in a minute to follow up, but just wanted to identify these issues to you that have been raised by the Qwest side as of Sunday afternoon:

Your Documents:

Atlantic Letter:

1. Need to define CPA, or at least identify it by date.

EAC Letter

1. Section 2, you used the phrase "Asia Capacity". I thought you deleted this phrase in a recent draft, but it now seems to be back. We need to either define this phrase or take it out.

2. Section 4, you added the phrase about the starting purchase price of \$100M, but the wording is a bit confusing. You should probably delete "Of the Purchase Price is \$100,000,000" and replace it with "The aggregate Purchase Price is \$100,000,000, of that amount, the Purchaser . . ."

3. Section 7, you state that the exchange can be for capacity of equal or greater value, but it is not clear how "value" is defined, or what "value" is based upon.

Portability Letter

1. Qwest accounting people are focused on the issue of whether the repurchase price should be based on fair market value (as Qwest prefers) versus what was paid for the item (as GC prefers). I think that Robin and Susan Chase need to close the loop on this question first thing Monday morning.

Qwest Documents

Dark Fibre

1. Section 5.3(a) and (b) -- the Qwest accounting people are checking to see whether they can live with the language. The concern is that degradation of the fibre, unlike unilateral relocation of the fiber by Qwest, is a normal risk of business, which should be equally shared by the parties. Could you confirm how the CPA handles the financial implications of degradation.

2. Section 6.3, the first sentence reads as follows:  
"Notwithstanding anything in this Agreement the Dark Fibre is physically limited to a specific fiber within the cable and a specified amount of capacity." We need to know whether you would agree to place a period after the word "cable", and delete the rest of the sentence. The problem Qwest has is that this agreement concerns dark fiber. The dark fiber will eventually be

lit  
 (by GC), and how it is lit will to some degree determine the capacity of  
 the  
 fiber. Thus, it does not seem correct to say that the amount of  
 capacity  
 has already been specified. Since your main concern in adding this  
 language  
 was to demonstrate that the fiber involved was an identifiable asset --  
 and  
 even as modified I think that your goal is accomplished -- would you be  
 okay  
 with this deletion.

3. Section 10 -- The template contract did not contain a  
 termination  
 for default clause. I copied the termination clause from the duct  
 agreement, which you have seen before, and pasted it into Section 10.4  
 of  
 each contract.

That is it from our side for now. I will follow up with a telephone  
 call as  
 soon as I send this.

Marty

Martin A. Rips  
 Attorney at Law  
 Perkins Coie LLP  
 (310) 788-3262 (direct dial)  
 (310) 863-4755 (cell)  
 (310) 788-3395 (fax)  
<mailto:ripsm@perkinscoie.com>  
<http://www.perkinscoie.com>

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 If you have received it in error, please advise the sender by reply  
 email and immediately delete  
 the message and any attachments without copying or disclosing the  
 contents. Thank you.

**CONFIDENTIAL**

From: Wright, Robin  
To: Joggerst, Patrick; Walsh, David; Armstrong, Jackie; Higase, Ted; Young, Chris (AGC); Yaremko, Robert  
CC:  
BCC:  
Subject: A bump in the Qwest road  
Date: 6/25/2001 5:37:15 PM

---

**Attachments:**

We've agreed to move forward, but I wanted to alert you to an issue that came up this evening. It has to do with portability. Here's the deal:

In our deals with Qwest, any capacity/ducts/dark fiber that we buy from them has to be activated in order for them to get revenue recognition. Since in many cases, we buy a bucket of services, they just activate what they can and we in turn have the right to port that to what we want once we decide what we want. We have always agreed that the value of that is what we paid for it, not fair market value. Our argument has been that we do not want to be penalized for their rev recognition rules. Now, their accountants are insisting that it has to be fair market value. So, we in turn are adding this to our agreement on the sell side. In truth, they have more at risk due to the structure of the deal. In any case, we have no choice.

Susan and I agreed that Greg Casey and David would talk sometime tomorrow and just get a gentleman's agreement that we'd work together to establish pricing at the purchase price. David, I'll work it out with Jenn.

We also need to get some folks working full time on activating what we purchased so we won't have any issue.

Thanks, Robin

GX-HEC-4197:



**CONFIDENTIAL**

From: Wright, Robin  
To: Armstrong, Jackie  
CC:  
BCC:  
Subject: qwest(F)  
Date: 6/25/2001 2:14:21 PM

---

**Attachments:**

---

He is so off topic most of the time.  
This is getting really frustrating with them changing directions all the time! I'm ok on the duct/DF moving around, but their stance on fair market value is ridiculous. We just need to do the exact same thing on capacity they purchase if they want to play it that way. I think they'll come around.

-----Original Message-----

From: Armstrong, Jackie  
Sent: Monday, June 25, 2001 3:50 PM  
To: Wright, Robin  
Subject: qwest

they will say anything affects revenue to get their own way - its bloody ridiculous  
and ss pisses me off!

GX-HEC-41972

---

From: Stout, Kimberly  
 Sent: Monday, June 25, 2001 9:31 AM  
 To: Chase, Susan (Wholesale); 'Wright, Robin'  
 Cc: 'Armstrong, Jackie'  
 Subject: RE: Need immediate help

Susan, the issue is that accounting is now saying they cannot approve what was done last quarter.... Let's chat. I'm in the office. Kym

-----Original Message-----

From: Chase, Susan (Wholesale)  
 Sent: Monday, June 25, 2001 8:50 AM  
 To: 'Wright, Robin'; Chase, Susan (Wholesale); Stout, Kimberly  
 Cc: Armstrong, Jackie  
 Subject: RE: Need immediate help

Robin,

I agree with your comments below. It is our intention to keep you whole. This language is in our last agreements. Accounting needs to reflect this in the upgrade and portability language. What did we do last quarter? Did we put it in a side letter? I will check.

Susan  
 713 218 6660  
 713 303 0251

-----Original Message-----

From: Wright, Robin [mailto:RWright@GlobalCrossing.com]  
 Sent: Monday, June 25, 2001 8:46 AM  
 To: 'susan.chase@qwest.com'; 'kimberly.stout@qwest.com'  
 Cc: Armstrong, Jackie  
 Subject: Need immediate help  
 Importance: High

Kim and Susan,

This is an issue that we keeps raising it's ugly head. As we've agreed, because we are both being delivered what we probably don't want in the long term, we have agreed, on both sides, that the repurchase price is the actual amount paid, not the fair market value. You both know the issue, we are taking capacity in order to help with revenue recognition issues. Can you kindly tell Erin Wray (asap if possible) that we have already agreed on this and explain that we are doing it both ways? Thanks much.  
 Talk to you later.

Robin

-----Original Message-----

From: Wray, Erin [mailto:Erin.Wray@kpnqwest.com]  
 Sent: Monday, June 25, 2001 3:02 AM  
 To: 'Rips, Martin-LA'; Armstrong, Jackie

Cc: 'jjblack@uswest.com'; 'wendy.wagner@qwest.com';  
'kelly.carter@qwest.com'; 'kimberly.stout@qwest.com'; King, Graham;  
'matthew.scott@qwest.com'; 'susan.chase@qwest.com'; 'jhgalle@qwest.com';  
Winkelman, Casper  
Subject: RE: Comments

All,

Regarding the portability letter, KPNOwest also needs the repurchase price to be at FMV and not what GC paid for it.

Erin Wray  
VP - Corporate Control  
KPNOwest N.V.  
Polaris Avenue 77  
2132 JH Hoofddorp  
The Netherlands  
Phone: +31 23 568 7618  
Mobile: +31 651 534 856  
Fax: +31 23 568 7985  
email: erin.wray@kpnqwest.com

-----Original Message-----  
From: Rips, Martin-LA [mailto:RipsMSPerkinsCoie.com]  
Sent: 24 June 2001 23:02  
To: 'Armstrong, Jackie'  
Cc: 'jjblack@uswest.com'; 'wendy.wagner@qwest.com';  
'kelly.carter@qwest.com'; 'kimberly.stout@qwest.com';  
'erin.wray@kpnqwest.com'; 'graham.king@kpnqwest.com';  
'matthew.scott@qwest.com'; 'susan.chase@qwest.com'; 'jhgalle@qwest.com';  
'casper.winkelman@kpnqwest.com'  
Subject: Comments

Jackie

I will call you in a minute to follow up, but just wanted to identify these issues to you that have been raised by the Qwest side as of Sunday afternoon:

Your Documents:

Atlantic Letter:

1. Need to define CPA, or at least identify it by date.

EAC Letter

1. Section 2, you used the phrase "Asia Capacity". I thought you deleted this phrase in a recent draft, but it now seems to be back. We need to either define this phrase or take it out.
2. Section 4, you added the phrase about the starting purchase price of \$100M, but the wording is a bit confusing. You should probably delete "Of the Purchase Price is \$100,000,000" and replace it with "The aggregate Purchase Price is \$100,000,000, of that amount, the Purchaser . . ."
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or greater value, but it is not clear how "value" is defined, or what "value" is based upon.

Portability Letter

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Qwest Documents

Dark Fibre

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That is it from our side for now. I will follow up with a telephone call as soon as I send this.

Marty

Martin A. Rips  
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(310) 863-4755 (cell)  
(310) 788-3399 (fax)  
mailto:ripsm@perkinscoie.com  
http://www.perkinscoie.com

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QEC 023122

**CONFIDENTIAL**

**From:** Armstrong, Jackie  
**To:** 'Rips, Martin-LA'; Wright, Robin; Yaremko, Robert; Carroll, Charles; Thieme, Doug  
**CC:** 'jjblack@uswest.com'; 'wendy.wagner@qwest.com'; 'kelly.carter@qwest.com';  
 'kimberly.stout@qwest.com'; 'erin.wray@kpnqwest.com'; 'graham.king@kpnqwest.com';  
 'matthew.scott@qwest.com'; 'susan.chase@qwest.com'; 'jhgalle@qwest.com';  
 'casper.winkelman@kpnqwest.com'  
**BCC:**  
**Subject:** Comments {F}  
**Date:** 6/25/2001 8:30:38 PM

---

**Attachments:**  
 Qwest sale agmt 6.25.01.doc

---

I attach the revised sale agreement with wording included to provide that capacity exchanged by Qwest will be given a value equal to fair market value, rather than what was paid now. Its the Qwest wording adapted to how we do portability.

Global Crossings accountants need to sign of on this but as they are in Dublin I should have an answer first thing.

Jackie

-----Original Message-----

**From:** Rips, Martin-LA [mailto:RipsM@PerkinsCoie.com]  
**Sent:** Sunday, June 24, 2001 2:02 PM  
**To:** Armstrong, Jackie  
**Cc:** 'jjblack@uswest.com'; 'wendy.wagner@qwest.com';  
 'kelly.carter@qwest.com'; 'kimberly.stout@qwest.com';  
 'erin.wray@kpnqwest.com'; 'graham.king@kpnqwest.com';  
 'matthew.scott@qwest.com'; 'susan.chase@qwest.com'; 'jhgalle@qwest.com';  
 'casper.winkelman@kpnqwest.com'  
**Subject:** Comments

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file://A:\COMMERCE\common\O&T\global%20crossing\armstrong\EMAIL\0000000000000001 6/10/02

2. Section 4, you added the phrase about the starting purchase price of \$100M, but the wording is a bit confusing. You should probably delete "Of the Purchase Price is \$100,000,000" and replace it with "The aggregate Purchase Price is \$100,000,000, of that amount, the Purchaser . . ."

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#### Qwest Documents

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That is it from our side for now. I will follow up with a telephone call as soon as I send this.

Marty

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Attorney at Law  
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the message and any attachments without copying or disclosing the contents. Thank you.



Global Crossing North American Networks, Inc.



Global Crossing North American Networks, Inc.

June 27, 2001

Qwest Communications Corporation  
555 Seventeenth Street  
Denver, CO 80202

Fax No. 303.291.1724

Dear Sirs:

We refer to the purchase by Global Crossing North American Networks, Inc. ("GCNA") or its affiliated company Global Crossing Ireland Limited ("GC Ireland") of the following:

1. Certain capacity in the United States with a purchase price of \$8,000,000 (the "US Capacity") to be purchased pursuant to Amendment No. 1 to the IRU Agreement made between GCNA and Qwest Communications Corporation ("Qwest").
2. Dark fiber in Europe with a purchase price of \$17,000,000 ("Dark Fiber") to be purchased pursuant to a Dark Fiber IRU Agreement made between Qwest and GC Ireland.
3. Certain wavelength capacity in Europe with a purchase price of \$10,000,000 (the "European Capacity") to be purchased pursuant to Amendment No. 1 to the IRU Agreement made between GC Ireland and Qwest.
4. Certain wavelength capacity in the US with a purchase price of \$8,000,000 (the "US Wavelengths") to be purchased pursuant to an agreement between Qwest and GCNA.
5. Telecommunications Ducts with a purchase price of \$38,000,000 (the "Ducts") to be purchased pursuant to an Agreement for the sale of Telecommunications Ducts on KPNQwest's Eastern European Ring made between Qwest and GC Ireland (the "Agreement").

C:\TEMP\New Side Letter 06 27 01.doc

QEC 02126

Confidential Treatment Requested by Qwest Communications International, Inc.

Global Crossing North American Networks, Inc.

The agreements referred to above are defined herein as the "Agreements", either of GC Ireland or GCNA as appropriate are referred to herein as the "Purchaser" and the agreements referred to in paragraphs 1, 3 and 4 above are referred to as the Capacity Agreements.

#### Capacity

Following activation of the US Capacity the European Capacity and the US Wavelengths (together the "Qwest Capacity") upon mutual agreement of the Parties, the Purchaser will, subject to availability and upon thirty days written notice to Qwest, be allowed to sell back the whole or part of the Qwest Capacity in exchange for the relevant Purchaser's purchase of an IRU in any other bandwidth capacity between the same or alternative sites in Europe or the USA (the "New Capacity").

The aggregate purchase price of the New Capacity will be at least equal to the repurchase price of the Qwest Capacity. Subject to this the Purchaser may purchase the New Capacity in any amounts or units of capacity it requests.

The repurchase price of the Qwest Capacity sold back to Qwest will be the fair market value of the Qwest Capacity being purchased by Qwest as of the repurchase date. The purchase price of the New Capacity will be as agreed between the parties based on then current market conditions and will be no less favorable than the best price offered by Qwest to any other customer for similar New Capacity in transactions of similar volume. Qwest or its relevant affiliate and GCNA or GC Ireland or their relevant affiliate will enter into a new agreement in respect of the sale and purchase of the New Capacity which will be on the same terms, as far as practicable given the New Capacity being purchased, as those set out in the Agreements. The term of the IRU in the New Capacity will be 20 years and the agreement will contain the following clause. "The capacity is physically limited to a specific fiber and wavelength of light within the cable and a specified amount of capacity. Qwest shall not move the capacity to another fiber or wavelength without Purchaser's prior written consent."

#### Ducts

Following purchase of the Ducts GC Ireland will, upon mutual agreement of the parties and subject to availability, and upon thirty days written notice to Qwest be allowed to sell back the whole or part of the Ducts in exchange for GC Ireland's purchase of an IRU in ducts elsewhere in Europe or the United States (the "New Ducts").

The aggregate purchase price of the New Ducts will be at least equal to the repurchase price of the Ducts. Subject to this the Purchaser may purchase the New Ducts in separate segments in Europe and the United States where available.

The repurchase price of the Ducts sold back to Qwest will be the fair market value of the Ducts being purchased by Qwest as of the repurchase date. The purchase price of the New Ducts will be as agreed between the parties based on then current market conditions and will be no less favorable than the best price offered by the Provider to any other customer for similar New Ducts in transactions of similar volume or where this is not relevant will be the reasonable market price in the country of purchase. Qwest or its relevant affiliate and GC Ireland or its relevant affiliate will enter into a new agreement in respect of the sale and purchase of the New Ducts which will be on the same terms, as far as practicable given the New Ducts being purchased, as those set out in the Agreements. The term of the IRU in the New Ducts will be 20 years.

#### Dark fiber

Following purchase of the Dark Fiber GC Ireland will, upon mutual consent of the Parties and subject to availability, and upon thirty days written notice to Qwest be allowed to sell back the whole or part of the Dark Fiber in exchange for GC Ireland's purchase of an IRU in dark fiber elsewhere in Europe or the United States (the "New Dark Fiber").

The aggregate purchase price of the New Dark Fiber will be at least equal to the repurchase price of the Dark Fiber. Subject to this GC Ireland may purchase the New Dark Fiber in any different cable systems in Europe and the United States. The repurchase price of the Dark Fiber sold back to Qwest will be the fair market value of the Dark Fiber being purchased by Qwest as of the repurchase date. The purchase price of the New Dark Fiber will be as agreed between the parties based on then current market conditions and will be no less favorable than the best price offered by Qwest to any other customer for similar New Dark Fiber in transactions of similar volume or where this is not relevant will be the reasonable market price in the country of purchase. Qwest or its relevant affiliate and GC Ireland or its relevant affiliate will enter into a new agreement in respect of the sale and purchase of the New Dark Fiber which will be on the same terms, as far as practicable given the New Dark Fiber being purchased, as those set out in the Agreements. The term of the IRU in the New Dark Fiber will be 20 years.

#### Maintenance Costs

Qwest hereby agrees that all maintenance costs due under the Capacity Agreements will be waived for a period of one year from the date of this letter agreement.

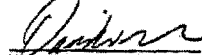
Global Crossing North American Networks, Inc.

In the event of any conflict between the terms of this letter and the Agreements the terms of this letter will prevail.

By signing below the parties to this Agreement agree to the terms as set out above.

Accepted and Agreed

Global Crossing North American  
Networks, Inc.




Name:  
Title:

Accepted and Agreed

Qwest Communications Corporation

Name:  
Title:

Global Crossing Ireland Limited

  
Name: DOUG MOLONEY  
Title: PRESIDENT

\*Qwest P&OM Director:

Date:

\*This Agreement shall not be binding upon Qwest until countersigned by the P&OM Director and Executive Vice President, Wholesale Markets (or an authorized designee) for Qwest.

RECEIVED TIME 27. J.A. 17.48

QEC 02129

Confidential Treatment Requested by Qwest Communications International, Inc.

Global Crossing North American Networks, Inc.

In the event of any conflict between the terms of this letter and the Agreements the terms of this letter will prevail.

By signing below the parties to this Agreements agree to the terms as set out above.

Accepted and Agreed

Accepted and Agreed

Global Crossing North American  
Networks, Inc.

Qwest Communications Corporation

Name:  
Title:

Name: Gregory M. Coffey  
Title: VP Wholesale Mktg.

Global Crossing Ireland Limited

APPROVED AS TO LEGAL FORM

Name:  
Title:

\*Qwest P&OM Director: Phyllis B.  
Date: 6/27/01

JUN 27 2001  
LAW DEPT.

\*This Agreement shall not be binding upon Qwest until countersigned by the P&OM Director and Executive Vice President, Wholesale Markets (or an authorized designee) for Qwest.

QEC 02130

Confidential Treatment Requested by Qwest Communications International, Inc.

1-2002 13:22 FROM:

1-111 P.006/010 P-000

Global Crossing North American Networks, Inc.



Global Crossing North American Networks, Inc.

June 29, 2001

Qwest Communications Corporation ("Qwest")  
 555 Seventeenth Street  
 Denver, CO 80202

Fax No. 303.291.1724

Dear Sirs:

We refer to the purchase by Global Crossing North American Networks, Inc ("GCNA") of an IRU in certain wavelength capacity in the US with a purchase price of \$20,000,000 (the "US Wavelengths") to be purchased pursuant to an agreement between Qwest and GCNA (the "Agreement").

Following activation of the US Wavelengths and upon mutual agreement of the Parties, the Purchaser will, subject to availability and upon thirty days written notice to Qwest, be allowed to sell back the whole or part of the US Wavelengths in exchange for the purchase by GCNA or one of its affiliates of an IRU in any other bandwidth capacity between the same or alternative sites in Europe or the USA (the "New Capacity").

The aggregate purchase price of the New Capacity will be at least equal to the repurchase price of the US Wavelengths. Subject to this the Purchaser may purchase the New Capacity in any amounts or units of capacity it requests.

The repurchase price of the US Wavelengths sold back to Qwest will be the fair market value of the US Wavelengths being purchased by Qwest as of the repurchase date. The purchase price of the New Capacity will be as agreed between the parties based on then current market conditions and will be no less favorable than the best price offered by Qwest to any other customer for similar New Capacity in transactions of similar volume. Qwest or its relevant affiliate and GCNA or its relevant affiliate will enter into a new agreement in respect of the sale and purchase of the New Capacity which will be on the same terms, as far as practicable given the New Capacity being purchased, as those set out in the Agreement. The term of the IRU in the New Capacity will be 20 years and the agreement will contain the following clause. "The capacity is physically limited to a specific fiber and wavelength of light within the

C:\TEMP\29 June Side Letter1.doc

212 658 8233 P. 89/89

TTTND 0 00

-2002 10:22 FROM:

7-177 P.010/010 P.000

-01 17:14 FROM: WEST LAW DEPT

Global Crossing North American Networks, Inc.

cable and a specified amount of capacity. Qwest shall not move the capacity to another fiber or wavelength without Purchaser's prior written consent."

#### Maintenance Costs

Qwest hereby agrees that all maintenance costs due under the Agreement will be waived for a period of one year from the date of this letter agreement.

In the event of any conflict between the terms of this letter and the Agreement the terms of this letter will prevail.

By signing below the parties to this Agreement agree to the terms as set forth above.

Accepted and Agreed

Accepted and Agreed

Global Crossing North American  
Networks, Inc.

Qwest Communications Corporation

Name:  
Title:Name: Dan L. Fulp  
Title: SVP Wholesale 4/29/01\*Qwest P&OM Director: \_\_\_\_\_  
Date: \_\_\_\_\_

\*This Agreement shall not be binding upon Qwest until countersigned by the P&OM Director and Executive Vice President, Wholesale Markets (or an authorized designee) for QWEST.



APPROVED AS TO LEGAL FORM

JUN 29 2001  
LAW DEPT



V-T1-2002 13:22 FROM

Global Crossing North American Networks, Inc.



Global Crossing North American Networks, Inc.

June 29, 2001

Qwest Communications Corporation ("Qwest")  
555 Seventeenth Street  
Denver, CO 80202

Fax No. 303.291.1724

Dear Sirs:

We refer to the purchase by Global Crossing North American Networks, Inc. ("GCNA") of an IRU in certain wavelength capacity in the US with a purchase price of \$20,000,000 (the "US Wavelengths") to be purchased pursuant to an agreement between Qwest and GCNA (the "Agreement").

Following activation of the US Wavelengths and upon mutual agreement of the Parties, the Purchaser will, subject to availability and upon thirty days written notice to Qwest, be allowed to sell back the whole or part of the US Wavelengths in exchange for the purchase by GCNA or one of its affiliates of an IRU in any other bandwidth capacity between the same or alternative sites in Europe or the USA (the "New Capacity").

The aggregate purchase price of the New Capacity will be at least equal to the repurchase price of the US Wavelengths. Subject to this the Purchaser may purchase the New Capacity in any amounts or units of capacity it requests.

The repurchase price of the US Wavelengths sold back to Qwest will be the fair market value of the US Wavelengths being purchased by Qwest as of the repurchase date. The purchase price of the New Capacity will be as agreed between the parties based on then current market conditions and will be no less favorable than the best price offered by Qwest to any other customer for similar New Capacity in transactions of similar volume. Qwest or its relevant affiliate and GCNA or its relevant affiliate will enter into a new agreement in respect of the sale and purchase of the New Capacity which will be on the same terms, as far as practicable given the New Capacity being purchased, as those set out in the Agreement. The term of the IRU in the New Capacity will be 20 years and the agreement will contain the following clause. "The capacity is physically limited to a specific fiber and wavelength of light within the

V11-2002 19:22 FROM-

T-177 P.008/010 F-566

IN-29-2001 20:10

INTL CARRIER SALES

212 658 0033 P.09/09

Global Crossing North America Networks, Inc.

capacity. Qwest shall not move the capacity to another fiber or wavelength without Purchaser's prior written consent."

#### Maintenance Costs

Qwest hereby agrees that all maintenance costs due under the Agreement will be waived for a period of one year from the date of this letter agreement.

In the event of any conflict between the terms of this letter and the Agreement the terms of this letter will prevail.

By signing below the parties to this Agreement agree to the terms as set out above.

Accepted and Agreed

Accepted and Agreed

Global Crossing North American  
Networks, Inc.

Qwest Communications Corporation

  
 Name:  
 Title:

 Name:  
 Title:

\*Qwest P&OM Director: \_\_\_\_\_  
 Date: \_\_\_\_\_

\*This Agreement shall not be binding upon Qwest until countersigned by the P&OM Director and Executive Vice President, Wholesale Markets (or an authorized designee) for Qwest.

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Printed on 10/10/01

71-2002 13:22 FROM-

T-177 P.010/010 F-505

-28-01 17:14 FROM: WPAI LAW DEPT

Global Crossing North American Networks, Inc.

cable and a specified amount of capacity. Qwest shall not move the capacity to another fiber or wavelength without Purchaser's prior written consent."

#### Maintenance Costs

Qwest hereby agrees that all maintenance costs due under the Agreement will be waived for a period of one year from the date of this letter agreement.

In the event of any conflict between the terms of this letter and the Agreement the terms of this letter will prevail.

By signing below the parties to this Agreements agree to the terms as set out above.

Accepted and Agreed

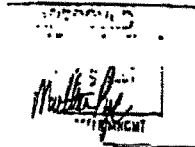
Accepted and Agreed

Global Crossing North American Networks, Inc.

Qwest Communications Corporation

Name:  
Title:Name:  
Title:Daryl L. Fulp  
SVP Wholesale 4/29/01\*Qwest P&QM Director: \_\_\_\_\_  
Date: \_\_\_\_\_

\*This Agreement shall not be binding upon Qwest until countersigned by the P&QM Director and Executive Vice President, Wholesale Markets (or an authorized designee) for Qwest.



APPROVED AS TO LEGAL FORM\*

JUN 29 2001  
LAW DEPT

64144291: Status of Qwest Link to 1215 Borregas POP{F}

**CONFIDENTIAL**

**From:** Alavanja, Peter T.  
**To:** Wright, Robin; Armstrong, Jackie  
**CC:** SHERMAN, STEVE; Lawlor, Scott; Palma, Tony; Mayer, Harry  
**BCC:**  
**Subject:** Status of Qwest Link to 1215 Borregas POP{F}  
**Date:** 8/17/2001 3:50:41 PM

---

**Attachments:**

Robin, Jackie:

I feel you should speak with Susan Chase to bring this issue to her attention. Here are the facts:

GC needs to provide 5 STM-1's of connectivity to Sunnyvale (1215 Borregas) to meet TNZ contractual requirements as part of the deal that was closed during Q2 2001. I understand that Qwest doesn't currently go to that location but is utilizing Qwest Link to make the connection. Assuming the charge is reasonable and within the contractual guidelines we should move forward.

The remaining 27 STM-1's could normally be brought into the 1 Wilshire POP in LA. However, due to capacity constraints, Jim Watts of the Network Architecture Group has informed me that we need/should diversify this back-haul into the San Francisco and Anaheim POP's. As I stated in my earlier e-mail, let's terminate the remaining 27 STM-1's in the following fashion; 14 STM-1's into San Francisco and 13 into Anaheim. This architecture would provide back-haul connectivity from our LA, San Francisco & Anaheim POP's to the Southern Cross & Japan-US landing station at Morro Bay.

As I mentioned, we're under some time constraints with TNZ. I feel it's critical that we clear this issue up immediately.

Thanks.

Peter

Peter T. Alavanja  
 Director  
 Product Management - Business Development  
 Global Broadband Services  
 Phone: 631-205-3943  
 Cell: 973-610-1319  
 Fax: 631-205-3941

-----Original Message-----

**From:** Wright, Robin  
**Sent:** Friday, August 17, 2001 2:01 PM  
**To:** Armstrong, Jackie; Alavanja, Peter T.

file://D:\Peter Alavanja FromToCC CC inside SEC-HEC\EMAIL\0000000003D2C3A3.htm 6/12/02

Cc: SHERMAN, STEVE; Lawlor, Scott; Palma, Tony; Mayer, Harry  
 Subject: RE: Status of Qwest Link to 1215 Borregas POP

I agree with Jackie's analysis. In my view, the only time we would be liable for additional charges on the backhaul routes would be if we have been using the capacity and now want to move it. However, we didn't look at Sunnyvale in particular. Take a look at the attached MOU. This was signed for purchases last year, but I think the intent was the same. Let me know if I need to go to Susan Chase.

Thanks, Robin

-----Original Message-----

From: Armstrong, Jackie  
 Sent: Thursday, August 16, 2001 7:43 PM  
 To: Alavanja, Peter T.; Wright, Robin  
 Cc: SHERMAN, STEVE; Lawlor, Scott; Palma, Tony; Mayer, Harry  
 Subject: RE: Status of Qwest Link to 1215 Borregas POP

Peter

This is a little unusual because what the agreement actually says and what we very clearly agreed with Qwest is not the same. This is because Qwest's strict accounting requirements demand that the buy back language be couched in very specific language. What the agreement actually says is that we need their consent to the buy back of the circuits and that the circuits will be bought back at market value at the time of the repurchase (which clearly could be less than what we paid). So strictly under the terms of the agreement they could just refuse to buy them back.

HOWEVER what was actually agreed (and we went through this a million times so there is no misunderstanding) was that they would allow us to sell the circuits back to them at the price we paid and to swap them for capacity we actually want for the same price. Now all this was done in the abstract - we did not know what we wanted at the time - so obviously there was no agreement that the LA capacity would be switched to San Francisco for example without additional charge. the agreement was that we could swap route X for route Y provided the price of route y was the same based on the same pricing we had been given previously - much as i would like to say that they have to give us it for the same price I dont think that we expected them to effectively lose money on the swap - so if they have to build or get a local loop its probably not unreasonable to expect us to pick up the additional cost - whereas if the capacity is already available and would normally be priced the same then there should be a straight swap.

What we will have a problem with though is any reluctance on their part to agree to the swap at all - whatever their new accountig rules they must be clear that they must get the approvals they need to give us the capacity - this was very clearly agreed - otherwise we are potentially going to be left with a lot of capacity we dont want.

This is not just a one way street - they have to rely on our goodwill under the sale agreement so we do have leverage.

I am copying this to Robin to ensure she agrees with my analysis on the additional cost point - since we didnt discuss what would happen on a build/ local loop purchase and this is my interpretation of

the spirit of our negotiations.  
Jackie

-----Original Message-----

From: Alavanja, Peter T.  
To: Armstrong, Jackie  
Cc: SHERMAN, STEVE; Lawlor, Scott; Palma, Tony; Mayer, Harry  
Sent: 8/16/01 6:41 PM  
Subject: FW: Status of Qwest Link to 1215 Borregas POP  
Importance: High

Jackie:

Can you tell me whether or not what Qwest is stating in the e-mail below is actually true with regard to the contract we signed last quarter for the 32 STM-1's of back-haul. I thought there was a portability clause that allowed us to move back-haul out of LA to another POP free of charge? At this time, 5 of the 32 STM-1's are being used to meet TNZ requirements (Sunnyvale POP at 1215 Borregas) per our Q2 deal with them. The remaining 27, per direction from our network architecture team should be routed between Anaheim and San Francisco. I would think we could send 14 STM-1's to San Fran and 13 to Anaheim. The reason for this is to off-set capacity constraints in our LA POP.

Please let me know as this impacts a variety of projects I'm currently working on.

Thanks.

Peter

Peter T. Alavanja  
Director  
Product Management - Business Development  
Global Broadband Services  
Phone: 631-205-3943  
Cell: 973-610-1319  
Fax: 631-205-3941

-----Original Message-----

From: Welch, Pat [mailto:Pat.Welch@qwest.com]  
Sent: Thursday, August 16, 2001 5:18 PM  
To: Mayer, Harry; Alavanja, Peter T.  
Cc: Suson, Michael J; Caprio, Darryl; Chase, Susan (Wholesale); Day, Donna C

file:///D:/Peter Alavanja FromToCC CC inside SEC-HEC\EMAIL\...0000000003D2C3A3.htm 6/12/02

Subject: RE: Status of Qwest Link to 1215 Borregas POP  
Importance: High

Peter, couple of things...

1. I was to get you a price quote for each STM1 that you wanted Qlink to deliver to 1215 Borregas. That quote is \$2,300 per STM1 for a 5 year lease with options to renew in 5 year increments with a "cost of living" increase. Also since I mentioned this would be add'l costs to Qwest to complete the build to 1215 Borregas, I informed you it would be add'l costs to GX. It was my understanding that you or Harry was going to check internally to see if GX had capital to finance the local loops related to this scenario. There will be add'l costs to GX for loops in SF and Anaheim if GX chooses to "move" STM1's to those location. I believe Qlink is already building or has completed builds to both of your addresses in SF and Anaheim. As of today, Qlink has put the build to 1215 Borregas on hold until I hear back from GX stating they would like to use Qlink as the local loop provider.

2. In addition to # 1 above, due to new accounting rules set fourth by FASB via the SEC effective 7/1/01, Qwest has to evaluate on a case by case basis any transactions that involve Qwest "buying back" a previously sold IRU circuit and replacing that circuit along a different user route. Hence the 32 STM1's Qwest sold to GX last quarter terminating into LA, and now GX would like to change the termination point to be some number terminating in Sunnyvale, SF and Anaheim requires our accounting department and our auditors to approve of such transaction. I am currently comprising an executive summary which will be submitted to accounting for approval of this transaction for Q301. So these two issues have to be resolved/approved before Qlink will continue with the build in Sunnyvale to 1215 Borregas, in which Qlink informed me that build will take 45 days to complete.

With that being said, I will keep you posted on our status of getting accountings approval to complete this transaction this quarter. If you

can  
let me know that GX acknowledges that they will have to pay for local  
loops  
related to these STM1's and how many STM1's you want to go to SF and  
Anaheim, that will help me in getting an answer on if Qwest will be able  
to  
execute this request this quarter. ( I know GX wants 5 of the 32 STM1s  
to  
go to Sunnyvale, but what about the other 27? )

Please advise and I will be in touch with status' as I receive them.  
Thank  
you.

Pat  
303 992 1438

-----Original Message-----

From: Alavanja, Peter T. [mailto:PTAlavanja@GlobalCrossing.com]  
Sent: Thursday, August 16, 2001 12:14 PM  
To: 'Pat.Welch@Qwest.com'  
Subject: FW: Status of Qwest Link to 1215 Borregas POP  
Importance: High

Pat:

I thought we had a commitment from Qwest that I would be provided weekly  
status on the 1215 Borregas POP build no later than 12:00pm EST every  
Thursday. The last e-mail I received from you indicated you would be the  
contact. I have not received any information and was not able to  
provide  
any status on my project call.

Can you please tell me who will be providing me the weekly, consistent  
project status report? As a customer, I would expect to receive this  
data  
unsolicited without having to send constant reminders.

I would like immediate status.

Thanks.

Peter

Peter T. Alavanja  
Director  
Product Management - Business Development  
Global Broadband Services



Phone: 631-205-3943  
Cell: 973-610-1319  
Fax: 631-205-3941

-----Original Message-----

From: Alavanja, Peter T.  
Sent: Monday, August 13, 2001 11:25 AM  
To: 'Welch, Pat'  
Subject: RE: Status of Qwest Link to 1215 Borregas POP

Pat:

Can I get the weekly update on 1215 Borregas no later than 12:00pm EST every Thursday until completion? This way, it enables me to provide the project team I'm on (meets at 1:00pm EST every Thursday) the latest status on the Qwest Link build.

Please let me know.

Peter

Peter T. Alavanja  
Director  
Product Management - Business Development  
Global Broadband Services  
Phone: 631-205-3943  
Cell: 973-610-1319  
Fax: 631-205-3941

-----Original Message-----

From: Welch, Pat [mailto:Pat.Welch@qwest.com]  
Sent: Monday, August 13, 2001 11:13 AM  
To: Alavanja, Peter T.  
Subject: RE: Status of Qwest Link to 1215 Borregas POP

Will do Peter.

-----Original Message-----

From: Alavanja, Peter T. [mailto:PTAlavanja@GlobalCrossing.com]  
Sent: Monday, August 13, 2001 8:58 AM  
To: 'Welch, Pat'

Subject: RE: Status of Qwest Link to 1215 Borregas POP

Pat:

Can you get cost/pricing information as well to the following address in San Francisco:

425 Brannan Street, 1st Floor, 94107

The reason I added the above address is that I'm getting conflicting reports about not having any more capacity/space in San Francisco, CA 274 Brannan Street, Suite 504, 94107.

Also, will you be providing me Qwest Link build status into 1215 Borregas?

Thanks.

Peter

Peter T. Alavanja  
Director  
Product Management - Business Development  
Global Broadband Services  
Phone: 631-205-3943  
Cell: 973-610-1319  
Fax: 631-205-3941

-----Original Message-----

From: Welch, Pat [mailto:Pat.Welch@qwest.com]  
Sent: Monday, August 13, 2001 10:51 AM  
To: Alavanja, Peter T.  
Subject: RE: Status of Qwest Link to 1215 Borregas POP

I am gathering cost/pricing info on the 1215 Borregas address as well as the Anaheim and SF addresses. I will get back with you when I have that information. Thanks Peter.

Pat

-----Original Message-----

From: Alavanja, Peter T. [mailto:PTAlavanja@GlobalCrossing.com]  
Sent: Friday, August 10, 2001 12:11 PM  
To: 'Pat.Welch@Qwest.com'

file://D:\Peter Alavanja FromToCC CC inside SEC-HEC\EMAIL\...\0000000003D2C3A3.htm 6/12/02

Subject: Status of Qwest Link to 1215 Borregas POP  
Importance: High

Pat:

Could you provide the following information regarding the 32 STM-1's of Southern Cross back-haul Global Crossing recently purchased from Qwest at the end of Q2:

- \* Provide for consistent weekly status reports on the Qwest Link build into the 1215 Borregas POP in Sunnyvale, CA of 5 STM-1 (requested by 12:00pm EST every Thursday)
- \* What is the Qwest charge to Global Crossing for the connectivity to 1215 Borregas?
- \* Current RFS date for 1215 Borregas

I recognize Global Crossing still needs to notify Qwest on the termination points for the remaining 27 STM-1's. As I mentioned, the current plan is to request termination into the following POP locations:

San Francisco, CA 274 Brannan Street, Suite 504, 94107  
Anaheim, CA 2461 West La Palma, First Floor 92801

I will provide you final direction/notification on these POP's within the next couple of weeks. In the meantime, could you please confirm for me whether or not Global Crossing would be incurring any additional charges associated with terminating the back-haul connections to the above mentioned addresses. If so, what are the charges?

I look forward to your prompt response on all these issues.

Thanks in advance.

Peter

Peter T. Alavanja  
Director  
Product Management - Business Development

Global Broadband Services  
Phone: 631-205-3943  
Cell: 973-610-1319  
Fax: 631-205-3941

From: Petrie, Deb  
 Sent: Thursday, September 20, 2001 9:48 AM  
 To: Heil, William (Bill)  
 Subject: RE: Global Crossing CONFIDENTIAL COMMUNICATION



C&W Aug Buy  
 2001.xls

here is the file i had created when we did the last revised purchase with c&w

-----Original Message-----  
 From: Petrie, Deb  
 Sent: Wednesday, September 19, 2001 6:03 PM  
 To: Heil, William (Bill)  
 Subject: RE: Global Crossing CONFIDENTIAL COMMUNICATION

got them - thanks -- we can discuss tomorrow.

-----Original Message-----  
 From: Heil, William (Bill)  
 Sent: Wednesday, September 19, 2001 3:31 PM  
 To: Petrie, Deb  
 Subject: RE: Global Crossing CONFIDENTIAL COMMUNICATION

Deb.....we have the description and capital costs developed. We do not have the NPV/projected sales. Need your help on those. Should have them to you within the next half hour.

-----Original Message-----  
 From: Petrie, Deb  
 Sent: Wednesday, September 19, 2001 2:29 PM  
 To: Heil, William (Bill)  
 Subject: FW: Global Crossing CONFIDENTIAL COMMUNICATION  
 Importance: High

Bill, this means that all deals are in jeopardy since we are not sure if qvest is prepared to spend capital this quarter or not. Forwarding this to you b/c we discussed yesterday that Szeliga will need to sign off on all purchases. We need to get the data to her group.

-----Original Message-----  
 From: Scott, Matthew  
 Sent: Wednesday, September 19, 2001 9:09 AM  
 To: Copeland, Stephanie X; Pye, Martha; Petrie, Deb; Dalton, Joe/Bischoff, Britt; Chase, Susan (Wholesale); Wagner, Wendy S; Cohen, Denise A; Smiley, Kimberly; Simard, Tana  
 Cc: Gallegos, James; Black, Jennifer  
 Subject: Global Crossing CONFIDENTIAL COMMUNICATION  
 Importance: High

CONFIDENTIAL  
ATTORNEY-CLIENT PRIVILEGE  
ATTORNEY WORK PRODUCT

Items to resolve:

Met with Robin Szeliga yesterday. My impression was she thought little to no capital was available for Qwest purchases into South America (or anywhere else). Make sure you receive a Szeliga sign off before committing to purchasing anything that requires capital

Met with AA yesterday. The proposed buy back of 64 STM-1s from Los Osos to LA sold in 2001 and replacement with 32 STM-1s from Los Osos to Anaheim and 32 STM-1s from Los Osos to San Francisco was discussed at a very high level (I did not mention any details I did not have to). Bottom line, this cannot happen without seriously jeopardizing all future IRU revenue recognition. At a minimum it must be presented by Technical Accounting to Szeliga for signoff before it is completed. Issues are:  
1) Different user routes, not on same fiber. 2) Buy back of asset sold just last quarter. 3) replacement circuits are at a effective lower rate per mile than original purchase (in other words we are paying more for what we buying back than for what we are selling). All of this implies this is a service and not an asset. That means we did not complete the earning process with the original sale and should not have booked any revenues. That taints all future IRU sales as they will never know if the earning process has been completed.

Any sale of PP&E (i.e. Tycom assets) should be structured as an operating lease and not an asset sale.

Less than 8 days left. Escalate issues to the top ASAP.

Qwest Communications

Matthew.Scott @Qwest.com  
Director of Finance  
Worldwide Strategic Transactions  
1801 California Street, 51st Floor  
Denver, CO 80202

Office - (303) 992-3263  
Fax - (303) 296-0247  
Mobile - (877) FON-MATT  
ePager - (877) 419-2475 or matthew\_scott@imcingular.com

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-----Original Message-----

From: Wagner, Wendy S  
Sent: Wednesday, September 19, 2001 8:41 AM  
To: Black, Jennifer; Carter, Kelly  
Cc: Grieshaber, Shaine M; Scott, Matthew; Smiley, Kimberly; Simard, Tana  
Subject: Global Crossing Initial Documents

Importance: High

Jenni and Kelly:

Attached are the following documents:

1. Global Crossing's comments to Qwest's new Lit IRU template;
2. Last quarter's European dark fiber IRU Agreement pursuant to which Qwest purchased fiber from KPNQ and flipped it to Global. KPNQ wants to amend this document for the Qwest purchase from KPNQ of additional dark fiber this quarter (Qwest is purchasing Helsinki-Stockholm fiber from KPNQ and flipping it to Global);
3. Latest term sheet detailing deal points.

Wanted to get you these documents ASAP but I have not yet had a chance to review Global's comments to our new template but will this morning. In addition, I'll go through last quarter's KPNQ-Q-Global dark fiber deal and add the new required provisions.

-----Original Message-----

From: Armstrong, Jackie [mailto:JArmstrong@GlobalCrossing.com]

Sent: Tuesday, September 18, 2001 7:33 PM

To: 'Wagner, Wendy S '

Cc: 'Simard, Tana '; 'Stout, Kimberly '

Subject: RE: IRU Template

Wendy

I attach the IRU agreement with my comments. I believe all the comments have been previously accepted by Qwest in previous agreements except

1. The insurance section. I have left in much of this with some amendment. if you are not happy with the amendments then we can go back to the language in the march agreement - but this version gives you more.
2. The indemnification section. I have made this reciprocal. Again if you are not happy we can go back to the march language which was negotiated.
3. The underlying rights language. Although we have argued previously about this I do not believe the wording previously presented was quite the same. In any case we expect to get the rights needed to use the capacity we are paying for. This has to be your responsibility.
4. Tax. I have not commented on this and have referred it to my tax dept for comment.
5. The annexures. I need to talk to the technical people about these.

Provided you accept the changes you have accepted before it should be fairly easy to agree this document. If it can be used for the international waves there will have to be some consequential changes. if it cant hopefully we can at least clone it and add to it any specific changes needed for international capacity.

There is no distinction between my changes in pink and those in blue - its just some were made by me and some by my secretary.  
Jackie

-----Original Message-----

From: Wagner, Wendy S

To: Armstrong, Jackie

Cc: Simard, Tana; Stout, Kimberly

Sent: 9/17/01 12:32 PM

Subject: RE: IRU Template

Jackie:

The document wasn't password protected. If you send me your fax number I'll fax it to you.

-----Original Message-----

From: Armstrong, Jackie [mailto:JArmstrong@GlobalCrossing.com]  
Sent: Monday, September 17, 2001 9:25 AM  
To: 'Wagner, Wendy S'  
Cc: Simard, Tana; Stout, Kimberly; Delorimier, Jami; SHERMAN, STEVE; Thieme, Douglas  
Subject: RE: IRU Template  
Importance: High

Wendy  
This feels like deja vu. We have a week to finalise this deal - which is , as usual, pretty complicated. Our original CPA took a great deal of time to negotiate - face to face. To try to agree a new form of CPA for this deal in this timeframe and with the numerous documents on our purchase side to deal with seems to me to be a waste of time , if not an impossible task given that we are all trying to avoid face to face meetings. Given that we have successfully used the amended original for hundreds of millions of dollars of existing purchases and that the only up side would that it would be neater. I suggest that we do what we have done before and I produce a letter agreement for the deal. I cant open your attachment - even as a read only document - so please resend without the password protection. However I suspect that the same applies and it contains provisions we have negotiated out in the past. Provided that we take these out again I have no problem using it once I have had a chance to go through it .

Jackie

-----Original Message-----

From: Wagner, Wendy S [mailto:Wendy.Wagner@qwest.com]  
Sent: Monday, September 17, 2001 7:26 AM  
To: Armstrong, Jackie  
Cc: Simard, Tana; Stout, Kimberly  
Subject: IRU Template

<<Lit Capacity IRU Agreement (v.7) (9.6.01).doc>>

Jackie:  
Attached is Qwest's new IRU template, reflecting changes we are required to make for accounting/finance reasons. We will need to use this basic template for any third quarter deals. Although we haven't really started our negotiations, I thought I'd get this to you in advance so you'd have an opportunity to start reviewing it. Qwest would like any purchases it makes from Global to be via a new agreement, rather than continuing to amend



the  
old 1998 agreement. Would you mind sending me your latest sell-side IRU  
template?

Look forward to working with you again--  
Wendy

**CONFIDENTIAL**

**From:** Delorimier, Jami  
**To:** Wright, Robin  
**CC:**  
**BCC:**  
**Subject:** GX-Qwest 3rd Qtr Deal:Internal&External Conf Calls]]{{F}}[{{F}}[{{F}}  
**Date:** 9/25/2001 4:01:26 PM  
**Attachments:**

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??????????

-----Original Message-----

**From:** Armstrong, Jackie  
**Sent:** Tuesday, September 25, 2001 3:36 PM  
**To:** Delorimier, Jami; Alavanja, Peter T.  
**Cc:** Sherman, Steve; Thieme, Douglas; Calis, Peter  
**Subject:** RE: [Fwd: [Fwd: GX-Qwest 3rd Qtr Deal:Internal&External Conf Calls]]

As I recollected the agreement did not include these routes. I attach the agreement - see schedule1(B) Under the side letter also entered into it was agreed that this dark fiber was portable for dark fiber anywhere in the US or Europe. So we have the right to exchange these routes for what we actually want.

As everyone involved knows the portability language is not great - we need their consent to the swap - but we had their word that they would consent.

Jackie

-----Original Message-----

**From:** Delorimier, Jami  
**Sent:** Tuesday, September 25, 2001 8:41 AM  
**To:** Alavanja, Peter T.  
**Cc:** Sherman, Steve; Armstrong, Jackie; Thieme, Douglas  
**Subject:** FW: [Fwd: [Fwd: GX-Qwest 3rd Qtr Deal:Internal&External Conf Calls]]

Peter, Jackie is checking the contract, but it appears to be a porting issue as per her message below. I also have a call into Robin. Will let you know

-----Original Message-----

**From:** Armstrong, Jackie  
**Sent:** Tuesday, September 25, 2001 11:31 AM  
**To:** Delorimier, Jami; Thieme, Douglas  
**Cc:** Wright, Robin

Subject: RE: [Fwd: [Fwd: GX-Qwest 3rd Qtr Deal:Internal&External Conf Calls]]

ill check the contract when I get into the office - but from recollection it wasnt available for activation by the end of the Q so we bought something else with the intention of porting it into this dark fiber once it was ready  
We wont be able to get a credit as we will have received \$15m of dark fiber somewhere- whatever it says in the contract which i will check when I get in

-----Original Message-----

From: Delorimier, Jami  
To: Thieme, Douglas; Armstrong, Jackie  
Sent: 9/25/01 11:20 AM  
Subject: FW: [Fwd: [Fwd: GX-Qwest 3rd Qtr Deal:Internal&External Conf Calls]]  
Importance: High

FYI. I'll talk to Robin

-----Original Message-----

From: Alavanja, Peter T.  
Sent: Tuesday, September 25, 2001 11:19 AM  
To: Sherman, Steve; Delorimier, Jami  
Cc: Palma, Tony; Sather, Rusty; Breaninger, Gary; Wong, Joey (Wen Hai); Gutierrez, Matthew; Wright, Robin  
Subject: FW: [Fwd: [Fwd: GX-Qwest 3rd Qtr Deal:Internal&External Conf Calls]]  
Importance: High

Steve, Jami:

I've attached the Qwest business case & sign-off sheet from last quarter which clearly indicates we purchased Helsinki-Stockholm DF for \$15M with additional capex requirements of approximately \$40M to light the fiber. However, in reviewing the contract, I don't see any mention of this dark fiber. I'd like to ask you to get clarification on what we actually received from Qwest. We obviously wired the payment to Qwest as per the itemized list of assets outlined in the business case. If we didn't receive the dark fiber then we should receive a credit of \$15M.

This needs to be resolved before we move forward on this quarters deal.

Peter T. Alavanja  
Director  
Product Management - Business Development  
Global Broadband Services  
Phone: 631-205-3943  
Cell: 973-610-1319  
Fax: 631-205-3941

-----Original Message-----

From: Alavanja, Peter T.

Sent: Tuesday, September 25, 2001 10:35 AM

To: Sather, Rusty

Subject: FW: [Fwd: [Fwd: GX-Qwest 3rd Qtr Deal:Internal&External Conf Calls]]

Peter T. Alavanja

Director

Product Management - Business Development

Global Broadband Services

Phone: 631-205-3943

Cell: 973-610-1319

Fax: 631-205-3941

-----Original Message-----

From: Wong, Joey (Wen Hai)

Sent: Wednesday, September 19, 2001 5:14 PM

To: Sather, Rusty; Alavanja, Peter T.

Subject: RE: [Fwd: [Fwd: GX-Qwest 3rd Qtr Deal:Internal&External Conf Calls]]

Attached is the Qwest case from last qtr. Rusty, don't be surprised if Tony reaches to you and the rest of the team around these types of deals. I just reached to Tony asking for help (both on help with figuring out how to justify the acquired assets and potentially for HC resource help with doing the cases - looking at 18 in total).  
<<Qwest (+20) Q201.xls>> <<Qwest (+20) 0601 Signoff.xls>>

From: Scott, Matthew  
 Sent: Wednesday, September 26, 2001 8:08 PM  
 To: Chase, Susan (Wholesale)  
 Cc: Smiley, Kimberly; Cohen, Denise A  
 Subject: RE: no portability on waves.

I am on another call at 8:00 AM.

The issue is the "ultimate culmination of the earnings process", or lack thereof. If we offer portability our Auditors view that as a service, not an asset sale. If we allow our customers who buy assets to freely exchange those assets for other assets, then we really have not sold a specific asset at all, we have a sold pre-paid "right to use" a of a service on generic capacity. If in fact that is the case, we cannot book the revenues up front, but must spread them over the life of the agreement. Because the customer has a 'defacto' right to swap out capacity that was not originally contemplated, the earning process has not been completed until such time as we have provided the ultimate capacity they need. Because we have done these "upgrades" in the past they believe that we cannot do ANY additional upgrades, except on the same user routes, without forcing them to conclude that the customer has the right to exchange one service for another and therefore Qwest could not longer enjoy any further up front revenue recognition on any IRU deals.

Hope this helps.

#### Qwest Communications

Matthew.Scott @Qwest.com  
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 Worldwide Strategic Transactions  
 1801 California Street, 51st Floor  
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 ePager - (877) 419-2475 or matthew\_scott@imcingular.com

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#### -----Original Message-----

From: Chase, Susan (Wholesale)  
 Sent: Wednesday, September 26, 2001 7:53 PM  
 To: Scott, Matthew  
 Cc: Smiley, Kimberly; Cohen, Denise A  
 Subject: no portability on waves.

Matt,

Global Crossing knows that they can not port the waves they are buying from us. However, some of their financial guys are wanting me to provide a more formal response to the accounting issue we have regarding the no port position. I need your help with providing this response. It would be great if you could get on a call with me to explain this in a more technical manner. If you have something you could send over to me in writing maybe I can appease the issue with an e-mail. Would you be available at 8:00am mst?

Thanks,

Susan

Vice President of International Wholesale Markets

Qwest

713 218 6660

713 218 6662 fx

713 303 0251 cell

Susan.Chase@qwest.com

---

From: Dalton, Joe (VP)  
 Sent: Monday, December 03, 2001 12:48 PM  
 To: Chase, Susan (Wholesale)  
 Subject: RE: GX-Qwest Backhaul in LA/SF

from your mouth to .....

I'll talk to Gordon.

Joe

-----Original Message-----  
 From: Chase, Susan (Wholesale)  
 Sent: Monday, December 03, 2001 12:50 PM  
 To: Dalton, Joe/Bischoff, Britt  
 Subject: FW: GX-Qwest Backhaul in LA/SF

"Our word is our bond"

-----Original Message-----  
 From: Chase, Susan (Wholesale)  
 Sent: Monday, December 03, 2001 12:41 PM  
 To: Dalton, Joe/Bischoff, Britt  
 Subject: FW: GX-Qwest Backhaul in LA/SF

Joe We need your involvement. The only option is to allow the trade in for the 16 STM's to be ported from LA to SFS. Under this option we get an additional 200k cash for this quarter. We can deliver what they are requesting and would prefer to keep the relationship positive as we have uncovered several million dollars permonth of recurring revenue opportunities.

The root cause is allowing us to help GC with their ever changing network needs. Once all the bought network is utilized then we should be in a good position to increase additional cash sales.

Susan

-----Original Message-----  
 From: Armstrong, Jackie  
 To: 'Smiley, Kimberly'; Sherman, Steve; 'Welch, Pat'; 'Cohen, Denise A';  
 Thieme, Douglas  
 Cc: 'Day, Donna C'; Alavanja, Peter T.; Casper, Thomas; Armstrong, Jason;  
 Lawlor, Scott; 'Chase, Susan (Wholesale)'  
 Sent: 12/3/01 4:12 PM  
 Subject: RE: GX-Qwest Backhaul in LA/SF

Kym

I cannot stress enough how concerned and frustrated we are with this. As you know when we did this deal - and the other similar deals with Qwest

where portability was involved - the capacity which was activated was, for Qwest's internal reasons, that which you were able to activate by the end of the quarter, rather than that which we actually required. Everyone involved was clear that the only reason that this was accepted was in reliance on Qwest's unequivocal representation that the capacity would be ported to the required routes after the event.

As far as I am aware this requirement to move the backhaul to San Francisco is the first time we have attempted to invoke the portability option and it appears that months after our first request the necessary consent is not forthcoming (although in previous discussions we thought this had been agreed) - and even if we get that consent it seems unlikely that the capacity will now be available in time for us to avoid significant penalties to a customer to whom we have agreed to supply some of this capacity.

We did these deals in good faith in reliance on our discussions - and we are relying on your cooperation. As you know this is a two way relationship and in the same way Qwest will require our cooperation when it comes to the options in the agreements under which we sold capacity to you.

Please can you try to expedite this decision and get the paperwork to me ?

Thanks  
Jackie

As-----Original Message-----

From: Smiley, Kimberly  
To: Sherman, Steve; Welch, Pat; Cohen, Denise A  
Cc: Day, Donna C; Smiley, Kimberly; Alavanja, Peter T.; Casper, Thomas ;  
Armstrong, Jason; Laylor, Scott; Armstrong, Jackie; Chase, Susan  
(Wholesale)  
Sent: 11/30/2001 5:00 PM  
Subject: RE: GX-Qwest Backhaul in LA/SF

Steve,

I had a call with the relevant parties to discuss your request to move the 16 STM-1s from LA to San Fran. Unfortunately, however, a decision has not been made. The matter is under advisement at the executive level.

I will let you know as soon as I learn more.

Best regards,

Kym

Kimberly Stout Smiley  
Director of Strategic Negotiations  
Qwest Services Corporation  
555 17th Street, 3rd Floor  
Denver, Colorado 80202  
Phone: (303) 992-4032  
Fax: (303) 992-1776



Email: kimberly.smiley@qwest.com

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-----Original Message-----  
 From: Sherman, Steve [mailto:Steve.Sherman@globalcrossing.com  
 <mailto:Steve.Sherman@globalcrossing.com> ]  
 Sent: Friday, November 30, 2001 11:35 AM  
 To: pat.welch@qwest.com; denise.cohen@qwest.com  
 Cc: donna.day@qwest.com; kimberly.smiley@qwest.com; Alavanja, Peter T.;  
 Casper, Thomas ; Armstrong, Jason; Lawlor, Scott; Armstrong, Jackie  
 Subject: GX-Qwest Rackhaul in LA/SF

Pat/Denise,

As you are aware GX has previously purchased 32 STM-1's of Backhaul that under the current agreement are to terminate in Los Angeles @ 1 Wilshire, can you confirm that these 32 SMT1's have been activated/delivered to 1 Wilshire-LA already?. GX is currently awaiting Qwests final approval to Port/Move 16 of those STM-1's to San Francisco at 425 Brannan. Based on this GX would like to receive the appropriate tie-down information from Qwest for these 16 STM-1's in LA, and coordinate the necessary interconnection/cross-connect of these circuits between our 2 cages at the 4th Flr Meet Me Room at 1 Wilshire, can you provide this info to the Global Crossing individuals listed on this email?

We are expecting to receive an answer on final approval to move the 16 STM1's to San Fran-425 BRannan from Kim Smiley today sometime, based on this we would like to make sure we on track with the remaining 16 STM1's in LA, you assistance in providing us the above info as soon as possible would be much appreciated.

please feel free to contact Peter Alavanja(631-205-3943) or Tom Casper(716-777-8367 with any questions or concerns.

Thanks,  
 Steve S.  
 Office: 760-632-7241  
 Mobile: 760-500-5900  
 Fax: 760-632-7261

From: Chase, Susan (Wholesale)  
 To: Moorhead, Susan ; Lee, Shawna  
 CC: Rivera, Rick; Casey, Greg/Hawkins, Julie; Dalton, Joe  
 Bischoff, Britt  
 Subject: FW: FLAG/Qwest May 2001 Proposal  
 Date: 05/07/2001 02:11:34 PM EST

Susan and Shawna,

Overall, The Qwest sale side looks ok to me. Except for the lease start date and I did not see any mention of the 15 million dollar right of first refusal on US network leases or IRU's. I am assuming that Flag is ok based on the verbal feedback we got earlier.

We wanted the lease to start on May 1, 2001. This allowed us to recognize more revenue for this quarter. If they want it to start on May 15 then maybe we should ask that the first month of the lease be higher than the last month as an example. We are expecting to at least recognize at a minimum 2 million in revenue for the 2nd quarter. Side note, on the first deal we did with Flag last year Flag had committed to buying 2 million dollars of leases from us. I have yet to see any orders.

Bill Hail needs to be ok with the buy side. It looks straight forward and I am happy to see that the O and M will start only after the purchase option is exercised.

Susan Chase

-----Original Message-----

From: Floyd, Ken [mailto:KFloyd@flagtelecom.com]  
 Sent: Monday, May 07, 2001 10:39 AM  
 To: Susan Chase (E-mail); Susan Moorhead (E-mail); Shawna Lee (E-mail)  
 Cc: McCormack, Ed; George, Mark; MacDonald, Jim; Templeton, Neil; Lewis, Jonathan; Dost, Parminder  
 Subject: FLAG/Qwest May 2001 Proposal  
 Importance: High

Susan, Susan and Shawna,

I would like to thank you all again for providing the clear and concise summary of the proposed transaction between our companies last Friday. FLAG, like you, is eager to reach agreement and proceed to the next phase as quickly as possible.

FLAG would like to suggest that we slightly modify your write-up to the following:

QEC 165501

## Qwest Sale:

- \* FLAG to lease STM-16 between FLAG San Francisco POP and FLAG Tokyo POP for a period of 12-months at a price of \$13.33M (66.7% of \$20M);
- \* Effective lease date to be activation of FNAL capacity (expected 15 May);
- \* When J-US available, Qwest will re-provision capacity to J-US and provide service from FLAG San Francisco POP to J-US Marayama landing station;
- \* At the end of the 12-month lease term, FLAG has the option of purchasing the capacity for \$6.67M (33.3% of \$20M);
- \* O&M on purchase will be fixed 5% of total purchase price (\$20M) and will start from when the option to purchase is exercised
- \* At any time after the option to purchase the IRU has been exercised, FLAG will have the option to convert the trans-Pacific capacity into alternate Qwest services (portability).

## FLAG Sale:

- \* Qwest to lease two (2) unprotected 10Gbs wavelengths between FLAG's Tokyo POP and FLAG's Hong Kong POP for a period of 12-months at a price of \$20M (66.7% of \$30M);
- \* Effective lease date to be activation of FNAL capacity (expected 15 May);
- \* Qwest has the option of converting the second 10Gbs wavelength to additional segments on the FNAL system at any time during the lease period;
- \* On loop closure of the FNAL system (full protection), the two separate 10Gbs wavelengths will be converted by FLAG to provide Qwest with a fully protected, single 10Gbs wavelength;
- \* At the end of the 12-month lease term, Qwest has the option of purchasing the capacity for \$10M (33.3% of \$30M);
- \* O&M on purchase will be a fixed 5% of total purchase price (\$30M) and will start from when the option to purchase is exercised

I realize that you are all now participating on an internal conference call. So that we can discuss this "real-time", when you have completed the call, would you please call me at 212-315-2993 and I will conference in Mark.

My regards,

Ken Floyd  
 Director - Americas Region  
 FLAG Telecom  
 212-319-2993 Office  
 212-754-4546 Fax  
 917-734-9670 Mobile

\*\*\*\*\*  
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QEC 165502

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.....

QEC 165503

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From: Chase, Susan (Wholesale)  
 Sent: Monday, June 04, 2001 3:55 PM  
 To: Casey, Greg/Hawkins, Julie  
 Cc: Dalton, Joe/Bischoff, Britt; Moorhead, Susan ; Stout, Kimberly  
 Subject: Flag

Greg we are down to one or two last issues with this deal.

1 For Qwest to start recognizing revenue on the 20 million dollar IRU, we are planning to sell Flag 10 STM1's on PC1. Flag will then port over to 16 STM1's on Japan/US within 2 or three months once Japan/US is turned up. Qwest does not have an issue with this. Qwest intends to keep the first investment intact and plans to offer the 16 for 20 million. Portability states that the trade in must be at fair market value. Qwest is of the belief that the fair market value will be 20 million at that time. Our agreement does not allow us to state an amount.

Bottom line Flag is willing to trust us. It would be great if you could call Ed McCormack and assure him that we have no trust issues.

I mentioned that you may be in a position to contact him sometime in the am. His number is 011 44 7775523149. He is very eager to complete this transaction.

Thank You,

Susan

---

**From:** Petrie, Deb  
**Sent:** Tuesday, December 04, 2001 11:34 AM  
**To:** Chase, Susan (Wholesale)  
**Subject:** RE: FLAG 2Q 2001  
**Sensitivity:** Confidential

agreed & thank you

-----Original Message-----  
**From:** Chase, Susan (Wholesale)  
**Sent:** Tuesday, December 04, 2001 10:24 AM  
**To:** Petrie, Deb  
**Subject:** RE: FLAG 2Q 2001  
**Sensitivity:** Confidential

Deb,

It is Shawna Lee and Susan Moorhead. I think what we need to do is readjust and tread lightly on what we should tell the customer. I will put together a plan and forward out shortly.

Thanks,

Susan

-----Original Message-----  
**From:** Petrie, Deb  
**Sent:** Monday, December 03, 2001 6:07 PM  
**To:** Martin, Gordon; Dalton, Joe (VP); Chase, Susan (Wholesale)  
**Cc:** Hansen, Steven Q; Smiley, Kimberly  
**Subject:** RE: FLAG 2Q 2001  
**Sensitivity:** Confidential

Denise Cohen  
under Tony Ruggeri  
under Susan Chase

-----Original Message-----  
**From:** Martin, Gordon  
**Sent:** Monday, December 03, 2001 4:54 PM  
**To:** Dalton, Joe (VP)  
**Cc:** Petrie, Deb; Hansen, Steven Q; Smiley, Kimberly  
**Subject:** RE: FLAG 2Q 2001  
**Sensitivity:** Confidential

Looks like we should pursue providing J-US capacity straight up...lease.

Who is the Account Manager on FLAG???

Gordon

-----Original Message-----  
**From:** Hansen, Steven Q  
**Sent:** Monday, December 03, 2001 7:58 AM  
**To:** Smiley, Kimberly  
**Cc:** Martin, Gordon; Petrie, Deb  
**Subject:** RE: FLAG 2Q 2001  
**Sensitivity:** Confidential

I mulled this over in dunnig the weekend and here are my thoughts:

I am not inclined to buyback and write down revenue for the quarter on this deal. Given that we would be swapping the IRU for a lease stream and would have to adjust revenue by \$18M is not something that I am willing to do. Further, given that it was clear to Flag when they did the initial deal that J-US was not available nor did we know if it ever would be and Flag continued to do the PC-1 deal, then there should be no exchange. Yes they have a clause for that would imply some type of portability, but this is definitely not a like kind exchange in all aspects.

Gordon, your thoughts?

**Steven Q. Hansen**  
Vice President  
CFO - Wholesale Markets  
Phone: 303-294-4543  
Cell: 720-312-7796

-----Original Message-----  
**From:** Smiley, Kimberly  
**Sent:** Friday, November 30, 2001 8:22 AM  
**To:** Hansen, Steven Q  
**Subject:** RE: FLAG 2Q 2001  
**Sensitivity:** Confidential

Sounds great. If you don't catch me in my office (303) 992-4032, then try my cell (303) 717-2039.  
Thanks!!

**Kimberly Stout Smiley**  
Director of Strategic Negotiations  
Qwest Services Corporation  
555 17th Street, 3rd Floor  
Denver, Colorado 80202  
Phone: (303) 992-4032  
Fax: (303) 992-1776  
Email: kimberly.smiley@qwest.com

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-----Original Message-----  
**From:** Hansen, Steven Q  
**Sent:** Friday, November 30, 2001 8:17 AM  
**To:** Smiley, Kimberly  
**Subject:** RE: FLAG 2Q 2001  
**Sensitivity:** Confidential

Kim,

Let me call you after my meeting this morning to discuss this so that I can understand the puts and takes. I'll shoot for 11:30.

**Steven Q. Hansen**  
Vice President  
CFO - Wholesale Markets  
Phone: 303-294-4543  
Cell: 720-312-7796

-----Original Message-----  
**From:** Smiley, Kimberly  
**Sent:** Thursday, November 29, 2001 3:18 PM

To: Hansen, Steven Q  
 Subject: FW: FLAG 2Q 2001  
 Importance: High  
 Sensitivity: Confidential

PRIVILEGED & CONFIDENTIAL

Steve, I need your help. I've copied for you in this email the original email I sent to Matthew Scott below.

Can you tell me if the 10 STM-1s on PC-1 we sold to Flag in 2Q 2001 were booked as up front revenue?

The reason I ask is that Flag would like to exercise the upgrade provision to trade in that capacity for capacity on J-US. The problem I'm incurring (aside from the fact we'd have to get finance approval for a non-same-route-upgrade), is that we've been told that J-US will not be sold as an IRU for upfront revenue recognition due to lack of our ability to transfer certain ownership rights. So, it is my understanding that we would never buy back the PC-1 and sell them the J-US if we booked the revenue for PC-1 up front b/c it would require us to restate the revenue, correct? But, if we didn't, then technically we should be able to buy it back and sell them a cap lease on J-US, right? Please help... we have another call with Flag on Monday morning and I need to be able to discuss this internally before then so we can weigh options.

Thanks

Matthew's response was that we did book it and we would have to reverse the revenue (not restate as I indicated) \$19.9M we booked in 2Q and we will also reverse \$3.8M of negative EBITA too. Is this something we would consider doing? Flag has gone through the roof with our response that we are not going to IRU J-US, so they can't trade PC-1 for J-US, and they are ready to have their top exec call Gordon Martin. I want to explore all avenues before it gets escalated to that level. Please let me know your thoughts...

Thanks!

**Kimberly Stout Smiley**  
 Director of Strategic Negotiations  
 Qwest Services Corporation  
 555 17th Street, 3rd Floor  
 Denver, Colorado 80202  
 Phone: (303) 992-4032  
 Fax: (303) 992-1776  
 Email: kimberly.smiley@qwest.com

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-----Original Message-----  
 From: Scott, Matthew  
 Sent: Thursday, November 29, 2001 2:37 PM  
 To: Smiley, Kimberly  
 Subject: RE: FLAG 2Q 2001  
 Sensitivity: Confidential

Steve Hansen's call. We will have to reverse \$19.9M of revenue we booked in 2Q and we will also reverse \$3.8M of negative EBITA too.



**Qwest Communications**

**Matthew.Scott @Qwest.com**  
 Director of Finance  
 Worldwide Strategic Transactions  
 1801 California Street, 51st Floor  
 Denver, CO 80202

Office - (303) 992-3263  
 Fax - (303) 296-0247  
 Mobile - (877) FON-MATT  
 ePager - (877) 419-2475 or matthew\_scott@mcgular.com

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## -----Original Message-----

**From:** Smiley, Kimberly  
**Sent:** Thursday, November 29, 2001 2:28 PM  
**To:** Scott, Matthew  
**Subject:** RE: FLAG 2Q 2001  
**Sensitivity:** Confidential

So, do you think this is something we can do?

**Kimberly Stout Smiley**  
 Director of Strategic Negotiations  
 Qwest Services Corporation  
 555 17th Street, 3rd Floor  
 Denver, Colorado 80202  
 Phone: (303) 992-4032  
 Fax: (303) 992-1776  
 Email: kimberly.smiley@qwest.com

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## -----Original Message-----

**From:** Scott, Matthew  
**Sent:** Thursday, November 29, 2001 2:35 PM  
**To:** Smiley, Kimberly  
**Subject:** RE: FLAG 2Q 2001  
**Sensitivity:** Confidential

We did book it up front. It is same year, so we will have to reverse the revenue (not "restate" since it is same year we will make the correction this quarter). The good news is we lost our shirt on the original sale we will get to reverse the loss too.

**Qwest Communications**

**Matthew.Scott @Qwest.com**  
 Director of Finance  
 Worldwide Strategic Transactions  
 1801 California Street, 51st Floor

Denver, CO 80202

Office - (303) 992-3263  
 Fax - (303) 296-0247  
 Mobile - (677) FON-MATT  
 ePager - (677) 419-2475 or matthew\_scott@imcngular.com

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-----Original Message-----

From: Smiley, Kimberly  
 Sent: Thursday, November 29, 2001 2:24 PM  
 To: Scott, Matthew  
 Subject: FLAG 2Q 2001  
 Importance: High  
 Sensitivity: Confidential

PRIVILEGED & CONFIDENTIAL

Can you tell me if the 10 STM-1s on PC-1 we sold to Flag in 2Q 2001 were booked as up front revenue?

The reason I ask is that Flag would like to exercise the upgrade provision to trade in that capacity for capacity on J-US. The problem I'm incurring (aside from the fact we'd have to get finance approval for a non-same-route-upgrade), is that we've been told that J-US will not be sold as an IRU for upfront revenue recognition due to lack of our ability to transfer certain ownership rights. So, it is my understanding that we would never buy back the PC-1 and sell them the J-US if we booked the revenue for PC-1 up front b/c it would require us to restate the revenue, correct? But, if we didn't, then technically we should be able to buy it back and sell them a cap lease on J-US, right? Please help... we have another call with Flag on Monday morning and I need to be able to discuss this internally before then so we can weigh options.

Thanks

**Kimberly Stout Smiley**  
 Director of Strategic Negotiations  
 Qwest Services Corporation  
 555 17th Street, 3rd Floor  
 Denver, Colorado 80202  
 Phone: (303) 992-4032  
 Fax: (303) 992-1776  
 Email: kimberly.smiley@qwest.com

Only the named recipient(s) should read this e-mail. It may contain confidential information. If you are not a named recipient or you received this e-mail by mistake, please notify me immediately by reply e-mail and delete the message.

From: Smiley, Kimberly  
 Sent: Thursday, December 06, 2001 1:44 PM  
 To: 'Floyd, Ken'; Day, Donna C; Smiley, Kimberly; Chase, Susan (Wholesale); Moorhead, Susan  
 Cc: Lee, Shawna  
 Subject: RE: Flag J-US

That time works for me. I will try to have someone from finance on the phone as requested.

Thanks

Kym

-----Original Message-----  
 From: Floyd, Ken [mailto:KFloyd@flagtelecom.com]  
 Sent: Thursday, December 06, 2001 1:43 PM  
 To: 'Day, Donna C'; Smiley, Kimberly; Chase, Susan (Wholesale);  
 Moorhead, Susan  
 Cc: Lee, Shawna  
 Subject: RE: Flag J-US  
 Importance: High

All,

I would like to request that the conference call be delayed one hour to 12 Noon EST. I would like to include some of my folks from London on the call if at all possible. The additional items that need to be discussed are:

1. PC-1 to J-US conversion
2. European Network to US Network conversion
3. Auditors letter

Would you please see if you can include an accounting/revenue person on the call as #3 above may have a direct impact on your previous quarters revenue recognition.

Please advise.

Ken

-----Original Message-----  
 From: Day, Donna C [mailto:Donna.Day@qwest.com]  
 Sent: Wednesday, December 05, 2001 5:04 PM  
 To: Smiley, Kimberly; Chase, Susan (Wholesale); Moorhead, Susan ;  
 'kfloyd@flagtelecom.com'  
 Cc: Lee, Shawna  
 Subject: Flag J-US

When: Friday, December 07, 2001 10:00 AM-11:00 AM (GMT-06:00) Central Time

(US & Canada).  
Where: Domestic #877-561-8688, Conf ID 7687480 (Pin #7649)

\*~\*~\*~\*~\*~\*~\*~\*~\*~\*

This meeting notice was sent on behalf of Shawna Lee to discuss Flag J-US IRU.

11:00 est  
10:00 cst  
9:00 mst

\*\*\*\*\*  
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\*\*\*\*\*

From: Lee, Shawna  
 Sent: Tuesday, December 11, 2001 5:27 PM  
 To: Smiley, Kimberly  
 Cc: Moorhead, Susan ; Chase, Susan (Wholesale); Day, Danna C  
 Subject: FLAG Telecom Issues (Audit Letter, PC1/JUS Conversion, Re-termination, MSA)

Kim:

I spoke with Ken Floyd this evening.

**Audit Letter from Arthur Andersen**

- November 14, 2001 Arthur Andersen sent a letter to FLAG confirming the purchase of an IRU June, 2001 and instructing FLAG to list all agreements between FLAG and Qwest, including executed contracts, side agreements and oral commitments executed during the first three quarters of 2001.
  - The actual Audit Letter is not an issue
- Concern:** Possible exposure on both parties based on "verbal/oral" agreements  
**Question:** How should FLAG handle responding to the request to list the "verbal/oral" agreements between the companies?

**Conversion of PC-1 to JUS**

- At the end of the day FLAG needs to have 16 STM1s on JUS for a value of \$20Million.
- If this means that FLAG is allowed to use any outstanding "credits" from KPNQwest last quarter or Qwest is able to convert the PC1 to JUS, it is imperative that there is a resolution during this quarter

**Re-termination of Fukide to Horidome Circuits**

- If FLAG is able to receive JUS capacity than the re-termination from Fukide to Horidome is not necessary

**Qwest MSA (local loop services)**

- Eventually we need to have an agreement in place so that the local loop circuits that were leased to FLAG June, 2000 will be under contract.

**Shawna S. Lee**

Director, International Wholesale Markets  
 Wholesale/Carrier Division  
 Qwest Communications  
 Phone #212.907.6309  
 Fax #212.972.8184  
 EFax #509.757.7186  
 Email: shawna.lee@qwest.com

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---

From: Floyd, Ken [KFloyd@flagtelecom.com]  
 Sent: Thursday, December 20, 2001 10:46 AM  
 To: Susan Chase (E-mail); Susan Moorhead (E-mail); Kym Smiley (E-mail); Shawna Lee (E-mail)  
 Cc: Dost, Parminder; George, Mark; MacDonald, Jim  
 Subject: Pacific Update  
 Importance: High

All,

Per our conversation yesterday, it is apparent that, due to Qwest Legal's interpretation of what constitutes an IRU and the ability to resell on J-US, Qwest has a large exposure on revenue recognition. It is also understood that FLAG has been trying to activate the Pacific capacity purchased from Qwest in Q2, 2001. In the interest of moving forward as quickly as possible, it is agreed that

- Qwest will immediately activate PC-1 capacity between San Francisco and Horidome
- Qwest to provide comments to FLAG regarding FLAG's comments to the Qwest MSA (for S.F local loop)

In the new year, FLAG will work with Qwest's Carrier and Legal Teams to provide them with a definition of an IRU, both from a global common use as well as specific to J-US, so that the PC-1 capacity can be converted to J-US.

Would you please inform FLAG when in January the San Francisco - Horidome capacity will be activated.

If you have any questions, please contact me.

My regards,

Ken Floyd  
 Director - Americas Region  
 FLAG Telecom  
 212-319-2993 Office  
 212-754-4546 Fax  
 917-734-9670 Mobile

\*\*\*\*\*  
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From: Dost, Parminder [PDost@flagtelecom.com]  
 Sent: Friday, December 21, 2001 12:32 PM  
 To: Floyd, Ken; 'Smiley, Kimberly'  
 Cc: George, Mark; 'Lee, Shawna'; 'Chase, Susan (Wholesale)'; 'Moorhead, Susan'  
 Subject: RE: Auditor Response

I wanted to advise everyone that, in the absence of any contact following Ken's email below, the audit response has now been sent to Qwest's auditors, although it is a little later than the deadline (7 December 2001) requested by Arthur Andersen. This confirms all the agreements and arrangements we have in place between the two companies.

Regards  
 Parminder Dost  
 Vice President Finance  
 Tel: + 44 20 7317 0819  
 Mob: + 44 7775 637807  
 Fax: + 44 20 7317 0844

-----Original Message-----  
 From: Floyd, Ken  
 Sent: 21 December 2001 15:56  
 To: 'Smiley, Kimberly'  
 Cc: George, Mark; Dost, Parminder; Lee, Shawna; Chase, Susan (Wholesale); Moorhead, Susan  
 Subject: RE: Auditor Response

Kym,

FLAG London will have be sending out FLAG's formal response in the next two hours and we have yet to hear from your finance folks. If they are still trying to contact FLAG, please have them call Parminder Dost directly on 44-207-317-0819.

Thanks,

Ken

-----Original Message-----  
 From: Smiley, Kimberly [mailto:Kimberly.Smiley@qwest.com]  
 Sent: Thursday, December 20, 2001 10:46 AM  
 To: 'Floyd, Ken'; Smiley, Kimberly  
 Cc: George, Mark; Dost, Parminder; Lee, Shawna; Chase, Susan (Wholesale); Moorhead, Susan  
 Subject: RE: Auditor Response

I apologize. I thought someone at Flag did speak with our CFO of wholesale, Steve Hansen, last week.

I will get someone from finance to call you today.



Thanks,

Kym

-----Original Message-----  
 From: Floyd, Ken [mailto:KFloyd@flagtelecom.com]  
 Sent: Thursday, December 20, 2001 6:36 AM  
 To: Kym Smiley (E-mail)  
 Cc: George, Mark; Dost, Parminder; Shawna Lee (E-mail); Susan Chase  
 (E-mail); Susan Moorhead (E-mail)  
 Subject: Auditor Response  
 Importance: High

Kym,

Per my voicemail, Qwest's auditors have been pressuring FLAG for a response to the letter asking for full disclosure of 2001 contracts, side letters and verbal agreements. Due to the holidays, FLAG will have to provide a response tomorrow. We have been attempting to coordinate a conference call with you and your Carrier CFO without any response on your part.

Is it right to assume that the lack of response means that a conference is not needed?

Please advise.

Ken Floyd  
 Director - Americas Region  
 FLAG Telecom  
 212-319-2993 Office  
 212-754-4546 Fax  
 917-734-9670 Mobile

.....  
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31. JUL. 2002 18:27 FLAG TELECOM  
 Nov-28-01 12:37pm From: FLAG TELECOM USA LTD 2127544546  
 2127544546 Denver, CO 80202  
 NO. 6903 P. 12  
 T-782 F-62/04 F-538

November 14, 2001

Flag Telecom  
 Ken Floyd, Director of Americas  
 570 Lexington Avenue, 38<sup>th</sup> Floor  
 New York, NY 10022



Dear: Mr. Floyd

Our auditors, Arthur Andersen LLP, are now engaged in an audit of our financial statements. In connection therewith, they desire to confirm the following information regarding your purchase of indefeasible rights of use from us:

| Contract Effective Date | Contract Value | Payment Terms   | Date of Acceptance | Amount Due   |
|-------------------------|----------------|---|--------------------|--------------|
| 06/27/01                | \$20,000,000   | \$150,000,000 due on June 27, 2001; \$5,000,000 due on June 27, 2002.         | 06/27/01           | \$5,000,000  |
| 09/28/01                | \$26,001,360   | 25% of purchase price due on September 28, 2001; 75% due on October 31, 2001. | 09/28/01           | \$19,501,020 |

Please state in the space below whether or not the above amounts and terms are in agreement with your records as of September 30, 2001. If not, please furnish any information you may have that will assist the auditors in reconciling any differences. Also, please describe any unfulfilled obligations or contingencies under this contract at that date.

In addition, please confirm this letter includes a complete listing of all agreements between you and Qwest, including executed contracts, side agreements and oral commitments, executed during the first three quarters of 2001.

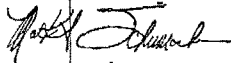
Our auditors will be relying upon the accuracy and completeness of your response in conducting their audit. Providing intentionally false information, or intentionally withholding information, in connection with their audit can result, under the U.S. Federal securities laws, in personal legal liability.

Please furnish your response directly to Arthur Andersen LLP, 1225 17<sup>th</sup> Street, Suite 3100, Denver, Colorado, 80202, no later than December 7, 2001. A stamped, addressed envelope is enclosed for your convenience. In addition, please fax Arthur Andersen LLP a copy of your response at 303-965-8031. If

31. JUL. 2002 18:28 FLAG TELECOM NO. 6903 P. 13  
Nov-22-01 12:37pm From: FLAG TELECOM USA LTD 2127544546 2127544546  
T-782 P. 05/04 F-538

you have any questions regarding this letter, please contact Jennifer Scheffel with Arthur Andersen as soon as possible at 303-383-6638.

Very truly yours,



Mark A. Schumacher  
Vice President and Controller

Enclosure

31. JUL. 2002 18:28 FLAG TELECOM NO. 6903 P. 14  
Nov-26-01 12:37pm From: FLAG TELECOM USA LTD 2127544546 T-762 P.04/04 F-559

Arthur Andersen LLP:

The above amounts and terms regarding the contract(s) with Qwest Communications International Inc., and its subsidiaries, to purchase and sell indefeasible rights of use are in agreement with our records and represent a complete listing of all agreements and commitments between us and Qwest at September 30, 2001, with the following exceptions (if any):

Date:

Signed:

By:

31 JUL 2002 18:26

FLAG TELECOM

NO. 6903 P. 6

## FAX MESSAGE



To: STEVE HANSEN

FLAG Telecom Limited

Company: QWEST

Fax No: + (303) 896 7473

9 South Street  
London W1K 2XA  
UK

Tel No:

From: Parminder Doot  
VP Finance

Tel: + 44 20 7317 0519

Date: 21 December 2001

Fax: + 44 20 7317 0844

Pages:  
(inc. cover) 4

www.flagtelecom.com

SUBJECT: AUDIT LETTER

Copy as requested.

## PLEASE NOTE

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31 JUL 2002 18:26 FLAG TELECOM NO. 6903 1

\* \* \* COMMUNICATION RESULT REPORT ( 21 DEC 2001 21:05 ) \* \* \*

TTI FLAG TELECOM

| TRANSMITTED/STORED<br>FILE MODE | 21 DEC 2001 21:02<br>OPTION | ADDRESS        | RESULT | PAGE |
|---------------------------------|-----------------------------|----------------|--------|------|
| 1752 MEMORY TX                  |                             | 90013038967473 | OK     | 4/4  |

REASON FOR LOSS OR LINE FAIL  
[1-3] NO ANSWER

[1-3] NO ANSWER  
[1-3] NO ANSWER

## FAX MESSAGE



To: STUART HANSEN  
Company: QWERTY

Fax No: + ( 303 ) 896 7473  
Tel No:

FLAG Telecom Limited  
9 South Street  
London W1K 2XA  
UK

From: Pariminder Doot  
VP Finance  
Date: 21 December 2001

Pages:  
(inc. cover) 4

Tel: + 44 20 7317 0819  
Fax: + 44 20 7317 0844  
www.flagtelecom.com

SUBJECT: AUDIT LETTER

Copy as requested.

*Paul*

## PLEASE NOTE

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31. JUL. 2002 18:26

FLAG TELECOM

NO. 6903 P. 5

## FAX MESSAGE



To: ARTHUR ANDERSEN

Company:

Fax No: + 1 303 965 8081  
Tel No:

FLAG Telecom Limited

9 South Street  
London W1K 2XA  
UKFrom: Parminder Dost  
VP Finance

Date: 21 December 2001

Pages:  
(inc. cover) 4Tel: + 44 20 7317 0819  
Fax: + 44 20 7317 0844


www.flagtelecom.com

SUBJECT: AUDIT CONFIRMATION

## PLEASE NOTE

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|  |                              |                |   |                    |  |
|--|------------------------------|----------------|---|--------------------|--|
| 31 JUL 2002 18:26  |                              | FLAG TELECOM   |   | NO. 6903 P. 2 P. 1 |  |
| * * COMMUNICATION RESULT REPORT ( 21 DEC 2001 21:09 ) * * *        |                              |                |   |                    |  |
| TTI FLAG TELECOM   |                              |                |   |                    |  |
| TRANSMITTED/STORED<br>FILE MODE                                    | 21 DEC 2001 21:02<br>OPTION  | ADDRESS        | RESULT  | PAGE               |  |
| 1731 MEMORY TX   |                              | 90013029658081 | OK  | 4/4                |  |
| REASON FOR LOSS<br>[1-1] NO ANSWER OR LINE FAIL<br>[1-2] NO ANSWER |                              |                | [2-1] NO ANSWER<br>[2-2] NO FACSIMILE CONNECTION                                    |                    |  |
| FAX MESSAGE  |                              |                |  |                    |  |
| To:  | ARTHUR ANDERSEN              |                | FLAG Telecom Limited  |                    |  |
| Company:   |                              |                | 9 South Street<br>London W1K 2XA<br>UK  |                    |  |
| From:  | Perimeter Debt<br>VP Finance |                | Tel: + 44 20 7317 0819  |                    |  |
| Date:  | 21 December 2001             |                | Fax: + 44 20 7317 0844  |                    |  |
|  |                              |                | www.flagtelecom.com   |                    |  |
|  |                              |                | Pages: (Inc. cover) 4   |                    |  |
| SUBJECT:   | AUDIT CONFIRMATION           |                |   |                    |  |

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31. JUL. 2002 18:27 FLAG TELECOM

2127544545  
FAX: 303-965-8081  
DENVER, CO 80202

1-783 NO. 6903 F-IP. 8

November 14, 2001

Flag Telecom  
Ken Floyd, Director of Americas  
570 Lexington Avenue, 38<sup>th</sup> Floor  
New York, NY 10022

Dear Mr. Floyd

Our auditors, Arthur Andersen LLP, are now engaged in an audit of our financial statements. In connection therewith, they desire to confirm the following information regarding your purchase of indefeasible rights of use from us:

| Contract Effective Date | Contract Value | Payment Terms   | Due of Acceptance | Amount Due   |
|-------------------------|----------------|---|-------------------|--------------|
| 06/27/01                | \$20,000,000   | \$150,000,000 due on June 27, 2001; \$5,000,000 due on June 27, 2002.         | 06/27/01          | \$5,000,000  |
| 09/28/01                | \$26,001,560   | 25% of purchase price due on September 28, 2001; 75% due on October 31, 2001. | 09/28/01          | \$19,501,020 |

Please state in the space below whether or not the above amounts and terms are in agreement with your records as of September 30, 2001. If not, please furnish any information you may have that will assist the auditors in reconciling any differences. Also, please describe any unfulfilled obligations or contingencies under this contract at that date.

In addition, please confirm this letter includes a complete listing of all agreements between you and Qwest, including executed contracts, side agreements and oral commitments, executed during the first three quarters of 2001.

Our auditors will be relying upon the accuracy and completeness of your response in conducting their audit. Providing intentionally false information, or intentionally withholding information, in connection with their audit can result, under the U.S. Federal securities laws, in personal legal liability.

Please furnish your response directly to Arthur Andersen LLP, 1225 17<sup>th</sup> Street, Suite 3100, Denver, Colorado, 80202, no later than December 7, 2001. A stamped, addressed envelope is enclosed for your convenience. In addition, please fax Arthur Andersen LLP a copy of your response at 303-965-8081. If

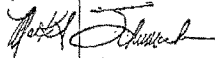
31. JUL. 2002 18:27-FLAG TELEFLAG TELECOM

1121544346

T-713 NO. 6903 F-P. 9

you have any questions regarding this letter, please contact Jennifer Scheffel with Arthur Andersen as soon as possible at 303-383-6638.

Very truly yours,



Mark A. Schumacher  
Vice President and Controller

Enclosure

Nov-31 JUL 2000 18:27 FLAG TEL&amp;FLAG TELECOM

2127644548

7-788 NO. 6903 F.P. 10

Arthur Andersen LLP:

The above amounts and terms regarding the contract(s) with Qwest Communications International Inc., and its subsidiaries, to purchase and sell indefeasible rights of use are in agreement with our records and represent a complete listing of all agreements and commitments between us and Qwest at September 30, 2001, with the following exceptions (if any):

1. For the contract dated 27 June 2001 above, the amount due on signing was \$15 (fifteen) million.
2. For the contract dated 27 June 2001, there is a verbal agreement that Qwest will convert the capacity purchased into 16 STM1's on the Japan-US cable system when available.
3. FLAG has sold certain capacity on its Asia cable system to Qwest for \$20 million in a contract signed in June 2001 with settlement on 27 June 2001. The capacity was a 12 month lease with an option to convert to an IRU at the end of the 12 month period on payment of \$10 million. There is also a side letter where FLAG agrees to exchange this capacity for capacity on our FLAG Pacific system at the end of the 12 month lease period, if that system has been built.

Date:

Signed:

By:

21 December 2001

Paul M

P.P.S. DoIT  
VP FINANCE

**PRIVILEGED AND CONFIDENTIAL ATTORNEY/CLIENT  
COMMUNICATION AND ATTORNEY WORK PRODUCT**

**TO:** Rich Baer  
Jim Gallegos

**FROM:** Tana Simard

**CC:** Mark D. Korman

**DATE:** January 17, 2002

**RE:** Investigation of June 2001 FLAG Transaction Portability Issues

We have interviewed Greg Casey, Susan Chase, Kimberly Smiley, Shawna Lee, Dan Nimtz and Susan Moorhead relative to the June 2001 FLAG Transaction and the portability issues which have recently been raised. Specifically, we inquired as to whether Qwest committed to FLAG it would be allowed to port the PC-1 capacity FLAG purchased from Qwest for other Qwest capacity. We have also analyzed relevant documents gathered from these individuals. Below you will find a conclusion of the analysis, which is followed by a summary of the interviews, and a memorandum prepared by Steve Perment of Perkins Coie who analyzed the documents.

**Conclusion:**

Based on the emails reviewed and the interviews that were conducted: (a) Qwest did not commit to FLAG that it could port the PC-1 capacity purchased in the June 2001 transaction; (b) Qwest did commit to FLAG that Qwest would work with FLAG if FLAG wanted to exercise the portability clause, but porting was an issue to be discussed in the future based on the facts existing at the time of the request; and (c) Qwest, at a minimum, told FLAG that Qwest did not know whether it would be able to port PC-1 to the Japan - US Cable system (J-US) in the future.

**Interview Summaries:**

Greg Casey

- Remembers meeting with FLAG, and recalls discussions regarding portability. However, Greg has no specific recollection of those conversations.
- Based on his practice at the time, he would have told FLAG what he told other customers, i.e., that Qwest would work with the customer regarding portability, but in the end Qwest did not know what it could do.
- Recalls, at the time, Finance would not allow commitments regarding portability.

Susan Chase (sales)

- FLAG was initially interested in J-US, however, J-US was not in operation at the time. Further, Qwest was unsure if it could sell such capacity, when available, as an IRU.
- Although FLAG was interested in J-US it purchased PC-1, which was available, since it had a need for trans-Pacific capacity. Portability option was offered and language was negotiated.
- FLAG raised the issue of porting to J-US if and when it became available. Discussions were that it might not be possible to port J-US.
- Qwest took the position that Qwest would allow porting in the future, if it was in the best interests of both companies from a cost perspective.
- Qwest told FLAG that it would work with them to get them where they wanted, but, porting was an issue to be discussed in the future based on the facts as they existed in the future. No commitment was made to port.

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Kimberly Smiley(business development)

- Believes that there was an implicit understanding in all negotiations that FLAG would be allowed to port, based on past practice and business relationships.
- Could not confirm or deny whether she or someone else on the negotiation team made express verbal commitments to FLAG regarding portability.
- FLAG wanted J-US. FLAG purchased PC-1 because it was available, but FLAG was consistent in its position that it wanted J-US. Kym believes there were no specific promises to port to J-US.
- The conversations of porting went as far as discussing what pricing of J-US would be in the future, if FLAG could port to J-US. However, no pricing was guaranteed.
- FLAG wanted a side letter, however, Qwest did not sign a side letter due to accounting and legal restrictions.
- There was an issue whether Qwest could sell J-US as an IRU. Qwest told FLAG that if it could not port PC-1 to J-US because of restrictions on J-US, then FLAG could consider porting the PC-1 capacity for domestic back haul when FLAG completed its own trans-Pacific cable system. She believes FLAG did not want PC-1 capacity, and would have opted for J-US.

Shawna Lee (sales)

- FLAG wanted trans-Pacific capacity. FLAG purchased PC-1 because of this need.
- Qwest made no commitment that FLAG would be allowed to port PC-1; however, Qwest did state that it would try to port the PC-1 capacity if it could at the time the request made. Although requested, Qwest would not agree to any side letters guaranteeing portability or pricing.
- Qwest told FLAG it could not IRU on J-US capacity. There was no promise or commitment that FLAG could port to J-US.
- No commitments were made to FLAG on portability, but the issue was heavily negotiated. Qwest told FLAG that any such transaction would be subject to Qwest approval. FLAG was aware of Qwest's portability restrictions.

Dan Nimtz (P&OM)

- FLAG had an immediate need for trans-Pacific capacity. FLAG wanted J-US capacity, however only PC-1 was available. FLAG opted for PC-1.
- During negotiations, FLAG constantly raised portability as an issue. The portability clause was heavily negotiated and Qwest ultimately did not agree to change the then standard template portability language.
- From a financial perspective, the PC-1 deal was unattractive and Dan performed an analysis which showed that it would be better for Qwest at some point to allow FLAG to port PC-1 to J-US. Although FLAG wanted to port the PC-1 capacity to J-US when available, Qwest made no firm commitment that FLAG could port PC-1 to J-US. Qwest did make a commitment it would look at portability when requested and work with FLAG. However, it was also clear that any portability would be subject to the provisions of the contract.
- FLAG wanted assurances that the price it was paying for PC-1 would be equivalent to the anticipated purchase price of a certain number of STM1s on J-US in the event it was allowed to port the PC-1 capacity. Qwest stated that pricing may not be the same: it was dependent upon when the porting took place. Pricing would likely be the same if porting occurred in the near term dependent upon timing and market conditions. Qwest made no commitment to FLAG. Both parties understood the risks with the contract's portability language.

Susan Moorhead (sales)

- FLAG wanted capacity on J-US and not on PC-1.
- Recalls conversations relating to Qwest porting the capacity to J-US when available.

PRIVILEGED AND CONFIDENTIAL ATTORNEY/CLIENT COMMUNICATION AND ATTORNEY WORK PRODUCT

- Qwest wasn't sure of the rules regarding J-US at the time and there were accounting and other issues.
- Qwest and FLAG understood the parties should cover their best interests in the contract.
- Susan's comments were provided with the caveat that she does not know the final deal points; there was confusion and the deal continued to change, she was in and out of negotiations and didn't participate in all calls. She would defer to Susan Chase's recollection as Susan had the most continuous involvement in the transaction.

**Perkins Coie Memorandum:**

Attached is the memorandum from Mr. Perfiement of Perkins Coie, which was prepared at my request.



Perkins Coie FLAG  
Memo

From: Stout, Kimberly  
Sent: Friday, December 29, 2000 3:38 PM  
To: Casey, Greg  
Subject: RE: C&W Qwest Agreement  
Greg,

I just tried to call Pam to see if she got this, and she's out of the office until Jan. 3. I sent it to Afshin and Pam, so Afshin will have it also.

-----Original Message-----

From: Casey, Greg  
Sent: Friday, December 29, 2000 3:37 PM  
To: Stout, Kimberly; Mohebbi, Afshin/Dieterle, Pam-Denver  
Cc: Dalton, Joe  
Subject: RE: C&W Qwest Agreement

afshin also copy [alan.cos@cwusa.com](mailto:alan.cos@cwusa.com) and then call me at 713 812 0437

-----Original Message-----

From: Stout, Kimberly  
Sent: Friday, December 29, 2000 2:46 PM  
To: Mohebbi, Afshin/Dieterle, Pam-Denver  
Cc: Casey, Greg; Dalton, Joe  
Subject: C&W Qwest Agreement  
Importance: High

Pam,

Greg Casey asked me to forward to you the following information to relay to Afshin as part of the C&W deal we are closing today.

Set forth below my signature block is the text of the email that Afshin is supposed to send to Nick Jeffery at C&W. Please cut and paste it into an email that Afshin will send to Nick Jeffery at [nick.jeffery@cwcom.co.uk](mailto:nick.jeffery@cwcom.co.uk)

Please copy Greg Casey on the email as well. Thanks in advance for your assistance. Please contact Greg Casey directly should you have any questions.

Best regards,

**Kimberly A. Stout**  
Director of Strategic Negotiations  
Qwest Communications Corporation  
555 17th Street, 22nd Floor  
Denver, Colorado 80202  
Phone: (303) 992-4032  
Fax: (303) 992-1776

Only the named recipient(s) should read this e-mail. It may contain confidential information. If you are not a named recipient or you received this e-mail by mistake, please notify me immediately by reply e-mail and delete the message.

QEC 2035



Email text to be sent to Nick Jeffery:

Dear Nick,

Qwest understands your concerns regarding the language in the side letter 'as agreed upon by the parties'. This email is intended to assure you that, in accordance with Qwest's past practice, Qwest will honor the understanding and intention of the parties with regard to any request by Cable & Wireless to obtain a full and fair trade of the capacity in Exhibit A of the IRU Agreement for OC-192 wavelength capacity.

Qwest guarantees that should Cable & Wireless request such a trade prior to 31 December 2001, then Qwest shall provide such capacity, which shall be upon the following pricing:

1st wavelength route \$0.050 per DSO route mile  
2nd wavelength route \$0.019 per DSO route mile  
3rd wavelength route \$0.019 per DSO route mile  
4th wavelength route \$0.019 per DSO route mile  
5th wavelength route \$0.019 per DSO route mile.

Please contact me at (303)992-6000 if you have any further concerns.

Best regards,

QEC 203



Alan Cue  
SVP, Partner Services  
Cable & Wireless  
8219 Lombard Pike  
8<sup>th</sup> Floor  
Vienna, VA 22182

Dear Alan,

This letter confirms that, pursuant to Section 5.4 of the IRU Agreement between Qwest Communications Corporation ("Qwest") and Cable & Wireless, USA ("C&W") dated March 31, 2000 (the "Agreement"), and as specifically amended on December 27, 2000 (the "Third Amendment"), any or all of the capacity acquired by Cable & Wireless, USA (as recorded in Exhibit A of the Third Amendment) (the "Original Capacity") may at Cable & Wireless USA's election, be exchanged for other capacity, as agreed upon by the parties.

C&W may exchange some or all of the Original Capacity for OC-192 wavelength capacity on the routes indicated in Exhibit A of the Third Amendment or other routes that Qwest Communications Corporation may have available and in which Cable & Wireless, USA agrees, before December 31, 2001 (the "Exchanged Capacity").

Any such exchange shall be documented by a written amendment to the Agreement. As provided in Section 5.4 of the Agreement, any such exchange shall be subject to the same terms and conditions of the Agreement, and the Exchanged Capacity shall be of greater or equal value to the Original Capacity being exchanged. In the event of such exchange, the Exchanged Capacity shall be priced as follows; provided however, this pricing shall be limited to a maximum of five (5) OC-192 wavelengths between the same city pair:

|                                  |                            |
|----------------------------------|----------------------------|
| 1 <sup>st</sup> wavelength route | \$0.050 per DSO route mile |
| 2 <sup>nd</sup> wavelength route | \$0.010 per DSO route mile |
| 3 <sup>rd</sup> wavelength route | \$0.010 per DSO route mile |
| 4 <sup>th</sup> wavelength route | \$0.010 per DSO route mile |
| 5 <sup>th</sup> wavelength route | \$0.010 per DSO route mile |

C&W and Qwest will also negotiate for pricing regarding fiber, where available, metro connectivity on an IRU basis, lower capacity levels (managed, unmanaged or wavelengths), non-domestic network, and leased capacity on both wavelength and managed capacity on Qwest's networks on a good faith basis.

Principle Principles

*[Handwritten signature]*

All Exchanged Capacity offered to C&W under any of the above options shall be offered at a rate equal to the lower of the above rates or the fair market rate or the rate of the exchange. In the absence of an independent market benchmark, a fair market rate is defined as the best rate offered by Qwest in any other company for the same volume of capacity and the same terms and conditions.

Termination points

Long distance capacity will be terminated at any carrier hotel reasonably identified by C&W in the terminal interconnect areas. These will include, but not be limited to, C&W POPs and public or private Peering Points.

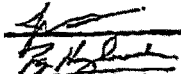
Thank you for your continued business, and we look forward to working with you on this transaction.

Best Regards,

  
Gregory M. Casey  
EVP- Wholesale Markets  
Qwest Communications

Approved as to legal form

Dec 6 9 2000

  
B. H. [unclear]  
VP of [unclear]

R



Alan Cox  
SVP, Partner Services  
Cable & Wireless  
8219 Leesburg Pike  
8<sup>th</sup> Floor  
Vienna, VA 22182

Dear Alan,

This letter confirms that, pursuant to Section 5.4 of the IRU Agreement between Qwest Communications Corporation ("Qwest") and Cable & Wireless, USA, ("C&W") dated March 31, 2000 (the "Agreement"), and as specifically amended on December 27, 2000 (the "Third Amendment"), any or all of the capacity acquired by Cable & Wireless, USA (as recorded in Exhibit A of the Third Amendment) (the "Original Capacity") may at Cable & Wireless USA's election, be exchanged for other capacity, as agreed upon by the parties.

C&W may exchange some or all of the Original Capacity for OC-192 wavelength capacity on the routes indicated in Exhibit A of the Third Amendment or other routes that Qwest Communications Corporation may have available and to which Cable & Wireless, USA agrees, before December 31, 2001 (the "Exchanged Capacity").

Any such exchange shall be documented by a written amendment to the Agreement. As provided in Section 5.4 of the Agreement, any such exchange shall be subject to the same terms and conditions of the Agreement, and the Exchanged Capacity shall be of greater or equal value to the Original Capacity being exchanged. In the event of such exchange, the Exchanged Capacity shall be priced as follows; provided however, this pricing shall be limited to a maximum of five (5) OC-192 wavelengths between the same city pair:

|                                  |         |                    |
|----------------------------------|---------|--------------------|
| 1 <sup>st</sup> wavelength route | \$0.050 | per DSO route mile |
| 2 <sup>nd</sup> wavelength route | \$0.019 | per DSO route mile |
| 3 <sup>rd</sup> wavelength route | \$0.019 | per DSO route mile |
| 4 <sup>th</sup> wavelength route | \$0.019 | per DSO route mile |
| 5 <sup>th</sup> wavelength route | \$0.019 | per DSO route mile |

C&W and Qwest will also negotiate for pricing regarding fiber, where available, metro connectivity on an IRU basis, lower capacity levels (managed, unmanaged or wavelengths), non-domestic network and leased capacity on both wavelength and managed capacity on Qwest's networks on a good faith basis.

**Pricing Principles**

QEC 20350

All Exchanged Capacity offered to C&W under any of the above options shall be offered at a rate equal to the lower of the above rates or the fair market rate at the time of the exchange. In the absence of an independent market benchmark, a fair market rate is defined as the best rate offered by Qwest to any other company for the same volume of capacity and the same terms and conditions.

Termination points

Long distance capacity will be terminated at any carrier hotel reasonably identified by C&W in the terminal metro areas. These will include, but not be limited to, C&W PCPs and public or private Pooling Points.

Thank you for your continued business, and we look forward to working with you on this transaction.

Best Regards,

Gregory M. Casey  
EVP - Wholesale Markets  
Qwest Communications

QEC 20:

---

From: Mohebbi, Afshin  
Sent: Friday, December 29, 2000 3:53 PM  
To: 'nick.jeffery@cwcom.co.uk'  
Cc: 'stan.coe@cwusa.com'

Dear Nick,

Qwest understands your concerns regarding the language in the side letter 'as agreed upon by the parties'. This email is intended to assure you that, in accordance with Qwest's past practice, Qwest will honor the understanding and intention of the parties with regard to any request by Cable & Wireless to obtain a full and fair trade of the capacity in Exhibit A of the IRLU Agreement for OC-192 wavelength capacity.

Qwest guarantees that should Cable & Wireless request such a trade prior to 31 December 2001, then Qwest shall provide such capacity, which shall be upon the following pricing:

1st wavelength route \$0.050 per DSO route mile  
2nd wavelength route \$0.019 per DSO route mile  
3rd wavelength route \$0.019 per DSO route mile  
4th wavelength route \$0.019 per DSO route mile  
5th wavelength route \$0.019 per DSO route mile.

Please contact me at (303)992-6000 if you have any further concerns.

Best regards,

Afshin Mohebbi  
President & COO  
Qwest Communications Intl.

QEC 203494

---

**From:** Scott, Matthew  
**Sent:** Thursday, July 05, 2001 5:18 PM  
**To:** Stout, Kimberly; Caprio, Darryl  
**Cc:** Pye, Martha; Rivera, Rick; Noyes, Frank T  
**Subject:** RE: Discuss C&W IRU Upgrade Strategy in relation to Liberty Bell and On-Going Requirements

I too understand the "spirit of cooperation". However, Accountants cannot grasp such a concept and this most certainly will be escalated to our CFO by the Accountants in its current form. When that happens the questions to be asked will be similar (but even more pointed) to mine. They will want to know what the document says our obligations are and where the evidence is (executed copy) that shows we must abide by the document at all. I can tell you (and I have been telling you) that the accounting rules are MUCH more stringently defined and enforced now than they were before and like it not they are being imposed retroactively.

I suggest we bring in Frank Noyes as our Accounting consultant now. Frank can address most issues and liaison with the Technical Accounting's when he feel we need to.

Hopefully with Frank's help we can find a way to accomplish this "spirit of cooperation" that satisfies both Qwest's and C&W's expectations. If not, Greg will have to address Robin's concerns about the undocumented "spirit of cooperation" that may or may not exist personally.

#### **Qwest Communications**

**Matthew.Scott @Qwest.com**  
 Director of Finance  
 Strategic Transactions  
 1801 California Street, 51st Floor  
 Denver, CO 80202

Office - (303) 992-3263  
 Fax - (303) 296-4150  
 Mobile - (877) FON-MATT  
 ePager - (877) 419-2475 or matthew\_scott@imcingular.com

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-----Original Message-----

**From:** Stout, Kimberly  
**Sent:** Thursday, July 05, 2001 4:47 PM  
**To:** Caprio, Darryl; Scott, Matthew  
**Cc:** Pye, Martha; Rivera, Rick  
**Subject:** RE: Discuss C&W IRU Upgrade Strategy in relation to Liberty Bell and On-Going Requirements

Matthew,

This letter was worked between Greg and Roger Hoaglund in Dec. 2000. I believe this is the same as the executed version but I've lost all email files relating to 4Q C&W deal.

Kym

-----Original Message-----

**From:** Caprio, Darryl  
**Sent:** Thursday, July 05, 2001 4:50 PM

To: Scott, Matthew  
 Cc: Stout, Kimberly; Pye, Martha; Caprio, Darryl; Rivera, Rick  
 Subject: RE: Discuss C&W IRU Upgrade Strategy in relation to Liberty Bell and On-Going Requirements

I understand the contract language and how that can be used to protect us but you must understand that there is a spirit of cooperation at the highest levels that has come into play and that can lead to different expectations.

I don't know about an "executed" version of this letter. I was told about it by the customer who has a copy. I got my copy from Kim or Martha just recently.

Who would you suggest we get on our internal call from Accounting?

dc

-----Original Appointment-----  
 From: Scott, Matthew  
 Sent: Thursday, July 05, 2001 6:29 PM  
 To: Caprio, Darryl  
 Cc: Pye, Martha; Brown, Julie K; Stout, Kimberly; Swett, Suzy X; Caprio, Darryl; Rivera, Rick  
 Subject: Tentative: Discuss C&W IRU Upgrade Strategy in relation to Liberty Bell and On-Going Requirements  
 When: Friday, July 06, 2001 12:00 PM-1:00 PM (GMT-07:00) Mountain Time (US & Canada).  
 Where: 888-334-8576; passcode 6936095

Key words .....

-as agreed upon by the parties"

and

"C&W may exchange\* .... routes that Qwest Communications Corporation" ... "agree"

If we do not agree, we cannot be forced to exchange. This is the first time I have seen this letter. Is there an executed copy of it? If there is, please fax it to me. (If there is not, why are we discussing this with them?) What the date of this letter?

Accounting must make the call if they will allow any exchange. Are they on this call?



**From:** Smiley, Kimberly  
**Sent:** Tuesday, October 23, 2001 10:58 AM  
**To:** Scott, Matthew  
**Subject:** FW: C&W letter

**Sensitivity:** Private  
 PRIVATE & CONFIDENTIAL

FYI... I'm looking for emails on the history of this letter. So far, this is the only one I've been able to find b/c I've lost my C&W 4Q 2000 file folder. This was in the 1Q file. IT is working to try to recover it, but don't know if there will be success.

Thought you might want to see this... It shows that Drew Glassman was involved in the side letter.

Kym

-----Original Message-----  
**From:** Stout, Kimberly  
**Sent:** Thursday, January 18, 2001 11:02 AM  
**To:** Scott, Matthew  
**Subject:** RE: C&W letter  
**Sensitivity:** Private

It was negotiated by Greg and Roger. Drew Glassman reviewed it at one point. Do you have any questions about it? If so, please let me know and I'll try to answer (although I wasn't directly involved since Greg & Roger did the negotiating directly with Alan Coe).

thanks

Kym

-----Original Message-----  
**From:** Scott, Matthew  
**Sent:** Wednesday, January 17, 2001 6:41 PM  
**To:** Stout, Kimberly  
**Subject:** RE: C&W letter  
**Sensitivity:** Private

I never saw this.

## **Qwest Communications**

**Matthew.Scott**

Senior Director of Finance

Chief Financial Officer - Unregulated Wholesale Markets

555 17th Street, 22nd Floor

**QEC 20352**

Denver, CO 80202

Office (303) 992-3263  
 FAX (303) 992-1776  
 Mobile (877) FON-MATT  
 Pager (888) 879-3434 ~~PNW~~ 303-507-3107

-----Original Message-----

**From:** Stout, Kimberly  
**Sent:** Wednesday, January 17, 2001 5:06 PM  
**To:** Petrie, Deb; Welch, Pat; Scott, Matthew  
**Subject:** FW: C&W letter  
**Importance:** High

Deb asked me to send you the attached side letter that was executed by Greg Q4.

Please let me know if you have questions.

Kym

***Kimberly A. Stout***

Director of Strategic Negotiations  
 Qwest Communications Corporation  
 555 17th Street, 22nd Floor  
 Denver, Colorado 80202  
 Phone: (303) 992-4032  
 Fax: (303) 992-1776

Only the named recipient(s) should read this e-mail. It may contain confidential information. If you are not a named recipient or you received this e-mail by mistake, please notify me immediately by reply e-mail and delete the message.

-----Original Message-----

**From:** Stout, Kimberly  
**Sent:** Friday, December 29, 2000 2:49 PM  
**To:** Casey, Greg/Mayo, Jamie  
**Cc:** Dalton, Joe  
**Subject:** FW: C&W letter  
**Importance:** High

Greg,

QEC 20352

Attached is the final letter for C&W. Please print, sign and fax to Jill Lewis at 512-472-4480. Jill will forward it to Alan.

I have already sent the email to Afshin's assistant Pam, and I copied you on that email.

Please call me on the cell 303-717-2039 if you need anything else.

Happy New Year!

Kym

***Kimberly A. Stout***  
Director of Strategic Negotiations  
Qwest Communications Corporation  
555 17th Street, 22nd Floor  
Denver, Colorado 80202  
Phone: (303) 992-4032  
Fax: (303) 992-1776

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QEC 20352

From: Smiley, Kimberly  
Sent: Tuesday, October 23, 2001 4:26 PM  
To: Dalton, Joe (VP); Casey, Greg  
Subject: FW: [Fwd: C&W letter]

FYI... accounting approval.

-----Original Message-----  
From: Stout, Kimberly  
Sent: Friday, December 15, 2000 5:03 PM  
To: 'Jennifer Black'; Stout, Kimberly; 'dxlewi2@uswest.com'  
Cc: Andrew Glassman  
Subject: RE: [Fwd: C&W letter]

Great. Thanks.

-----Original Message-----  
From: Jennifer Black [mailto:jjblack@uswest.com]  
Sent: Friday, December 15, 2000 4:21 PM  
To: Kimberly Stout  
Cc: Andrew Glassman  
Subject: Re: [Fwd: C&W letter]

Looks good.

Andrew Glassman wrote:

> R&R ASAP  
>  
> -----  
>  
> Subject: C&W letter  
> Date: Fri, 15 Dec 2000 15:16:17 -0700  
> From: "Stout, Kimberly" <Kimberly.Stout@qwest.com>  
> To: "'aglassm@qwest.com'" <aglassm@qwest.com>,  
> "dxlewi@uswest.com"  
> <dxlewi@uswest.com>  
> CC: "Casey, Greg/Mayo, Jamie" <caseymayo@qwest.com>  
>  
> Guys,  
>  
> As we discussed, I've revised a letter for Greg Casey's signature to C&W  
> regarding upcoming deals between the parties. The revisions that I have  
> made should address the accounting concerns, but please review and verify  
> whether you require any additional changes.  
>  
> For your convenience, I have attached a redline and a clean version of the  
> letter, as revised by me.  
>  
> Thanks in advance for your help.  
>  
> Kimberly A. Stout

```

> > Director of Strategic Negotiations
> > Qwest Communications Corporation
> > 555 17th Street, 22nd Floor
> > Denver, Colorado 80202
> > Phone: (303) 992-4032
> > Fax: (303) 992-1776
> >
> > Only the named recipient(s) should read this e-mail. It may contain
> > confidential information. If you are not a named recipient or you
> > received this e-mail by mistake, please notify me immediately by reply
> > e-mail and delete the message.
> >
> <<C&W Qwest Letter 12.15.00.doc>> <<C&W Qwest Letter 12.15.00.doc>>
>
> -----
>                               Name: C&W Qwest Letter 12.15.00.doc
> C&W Qwest Letter 12.15.00.doc  Type: Microsoft Word Document (application/msword)
>                               Encoding: base64
>
>                               Name: C&W Qwest Letter 12.15.00.doc
> C&W Qwest Letter 12.15.00.doc  Type: Microsoft Word Document (application/msword)
>                               Encoding: base64
>
> -----
>
> Drew Glassman <aglassm@qwest.com>
> Assistant Controller
> Qwest
>
> Drew Glassman
> Assistant Controller                <aglassm@qwest.com>
> Qwest
> work (303) 965-4894 fax (303) 896-9466 Conference Software Address
> Additional Information:
> Last Name      Glassman
> First Name     Drew
> Version        2.1

```

**From:** Smiley, Kimberly  
**Sent:** Tuesday, October 23, 2001 4:31 PM  
**To:** Scott, Matthew  
**Subject:** FW: Proposed Revision & E-mail text  
**Importance:** High



CW Qwest Side  
 Letter1234.doc

-----Original Message-----  
**From:** Dalton, Joe  
**Sent:** Friday, December 29, 2000 6:49 AM  
**To:** Stout, Kimberly  
**Cc:** Hoaglund, Roger; Pye, Martha  
**Subject:** FW: Proposed Revision & E-mail text  
**Importance:** High

Kim,

Please add Greg's language to the e-mail text in lieu of the second pricing block. I'll get a final go from Alan so we can send to Hoaglund.

Thanks,

Joe

-----Original Message-----  
**From:** Casey, Greg  
**Sent:** Thursday, December 28, 2000 9:36 PM  
**To:** 'alan.coe@cwusa.com'  
**Cc:** Dalton, Joe; Stout, Kimberly; Hoaglund, Roger  
**Subject:** language  
**Importance:** High

alan We propose to add the following language to the email in lieu of the proposed blended pricing; "Qwest agrees to negotiate with Cable and Wireless spot market and/or blended rates for the aforementioned capacities within 90 days of the date of this email."

Please indicate whether this is acceptable to Cable and Wireless so that we may incorporate this language in to the final email.

Sincerely,

Greg

-----Original Message-----  
**From:** Coe, Alan [mailto:Alan.Coe@cwusa.com]  
**Sent:** Thursday, December 28, 2000 4:09 PM  
**To:** 'Dalton, Joe'

Subject: FW: Proposed Revision & E-mail text  
Importance: High

Joe, I attach a final version for the side letter. I have deleted the first para as it seems to add nothing - in fact we think it confuses things now. I have also deleted the proposed "good faith" text which we can not agree to.

Below is a copy of the e-mail that includes the rates I have added for re-sale. I have come at this a number of ways and we can discuss this further once you have received this.

Regards

Alan

E-MAIL TEXT

"Qwest understands your concerns regarding the language in the side letter 'as agreed upon by the parties'. This email is intended to assure you that, in accordance with Qwest's past practice, Qwest will honor the understanding and intention of the parties with regard to any request by Cable & Wireless to obtain a full and fair trade of the capacity in Exhibit A of the IRU Agreement for OC-192 wavelength capacity.

Qwest guarantees that should Cable & Wireless request such a trade prior to 31 December 2001, then Qwest shall provide such capacity, which shall be upon the following pricing:

1st wavelength route \$0.050 per DSO route mile  
2nd wavelength route \$0.019 per DSO route mile  
3rd wavelength route \$0.019 per DSO route mile  
4th wavelength route \$0.019 per DSO route mile  
5th wavelength route \$0.019 per DSO route mile.

However, if Cable & Wireless requires such capacity for re-selling to third parties, the following pricing shall apply instead:

1st wavelength route \$0.03 per DSO route mile  
2nd wavelength route \$0.03 per DSO route mile  
3rd wavelength route \$0.028 per DSO route mile  
4th wavelength route \$0.019 per DSO route mile  
5th wavelength route \$0.019 per DSO route mile.

Please contact me on ..... if you have any further concerns.

regards\*

-----Original Message-----

From: Dalton, Joe [mailto:joe.dalton@qwest.com]  
Sent: Wednesday, December 27, 2000 9:00 PM  
To: 'Coe, Alan'  
Cc: Casey, Greg; Hoaglund, Roger  
Subject: RE: Proposed Revision & E-mail text  
Importance: High

Alan,

We made a couple of minor changes to the attached letter (I tried to highlight them in red. It is now acceptable to Qwest. I only added "route" to the e-mail below, otherwise it is fine. Roger Hoaglund, Vice President Pricing will be sending the e-mail to you when we get your go ahead.

Call with questions,

Joe

Joseph L. Dalton  
Vice President Worldwide Wholesale Markets  
Office: 847-400-8580  
Email: joe.dalton@qwest.com

-----Original Message-----

From: Coe, Alan [mailto:Alan.Coe@cwusa.com]  
Sent: Wednesday, December 27, 2000 10:46 AM  
To: 'Casey, Greg'; 'Dalton, Joe'  
Cc: Stout, Kimberly  
Subject: Proposed Revision & E-mail text

Greg, Ref the Qwest side letter, our lawyers are recommending that you insert the words 'at Cable & Wireless USA's election,' after the new word 'may' at the end of paragraph 2. Updated draft enclosed.

Ref the proposed e-mail text we propose

"We understand your concerns regarding the language 'as agreed upon by the parties'. This email is intended to assure you that, in accordance with Qwest's past practice, Qwest will honor the understanding and intention of the parties with regard to any request by Cable & Wireless to obtain a full and fair trade of the capacity in Exhibit A for OC-192 wavelength capacity.

Qwest guarantees that should Cable & Wireless request such a trade prior to 31 December 2001, then Qwest shall provide such capacity upon the following pricing:

1st wavelength route \$0.050 per DSO route mile  
2nd wavelength route \$0.019 per DSO route mile  
3rd wavelength route \$0.019 per DSO route mile  
4th wavelength route \$0.019 per DSO route mile  
5th wavelength route \$0.019 per DSO route mile

Please call me on ..... if you have any further concerns."

Please confirm that this is acceptable to Qwest before I review with Nick.

Regards

Alan



**From:** Smiley, Kimberly  
**Sent:** Tuesday, October 23, 2001 4:32 PM  
**To:** Scott, Matthew  
**Subject:** FW: language

**Importance:** High



CW Qwest Side  
 Letter1234.doc

-----Original Message-----

**From:** Dalton, Joe  
**Sent:** Friday, December 29, 2000 7:54 AM  
**To:** Stout, Kimberly  
**Cc:** Hoaglund, Roger  
**Subject:** FW: language  
**Importance:** High

Kim,

Disregard my other mail message. The e-mail language is as follows.

Roger,

Please approve the e-mail and the attached so we are ready to go.

Thanks,

Joe

-----Original Message-----

**From:** Coe, Alan [mailto:Alan.Coe@cwusa.com]  
**Sent:** Friday, December 29, 2000 8:32 AM  
**To:** 'Dalton, Joe'  
**Subject:** RE: language

We are not adding the language that Greg proposed. The final version of the e-mail text is as follows. You just need to fill in Afshin's telephone number - I will let you know if we decide not to have the e-mail come from Afshin:

E-MAIL TEXT

"Qwest understands your concerns regarding the language in the side letter 'as agreed upon by the parties'. This email is intended to assure you that, in accordance with Qwest's past practice, Qwest will honor the understanding and intention of the parties with regard to any request by Cable & Wireless to obtain a full and fair trade of the capacity in Exhibit A of the IRU

Agreement for OC-192 wavelength capacity.

Qwest guarantees that should Cable & Wireless request such a trade prior to 31 December 2001, then Qwest shall provide such capacity, which shall be upon the following pricing:

1st wavelength route \$0.050 per DSO route mile  
 2nd wavelength route \$0.019 per DSO route mile  
 3rd wavelength route \$0.019 per DSO route mile  
 4th wavelength route \$0.019 per DSO route mile  
 5th wavelength route \$0.019 per DSO route mile.

Please contact me on ..... if you have any further concerns.

regards".

Jill will be contacting Kim about the SOLAS SLA - there is a further change to reflect the correct situation regarding the SLAs on the system.

Will call soon once I have spoken to Nick to advise next steps.

Regards

Alan

-----Original Message-----  
 From: Dalton, Joe [mailto:joe.dalton@qwest.com]  
 Sent: Friday, December 29, 2000 9:04 AM  
 To: 'Coe, Alan C&WUSA'  
 Subject: FW: language  
 Importance: High

Alan,

Are we ready to go. I assumed we were done and have the language being added and finalized on our end. I'm ready to exchange signatures as soon as I get your go ahead.  
 Kim will follow up with Jill on the "outage clarification" on SONUS but I expect that will be done first thing. I'm in the office.

Thanks,

Joe

> -----Original Message-----  
 > From: Casey, Greg  
 > Sent: Thursday, December 28, 2000 9:36 PM  
 > To: 'alan.coe@cwusa.com'  
 > Cc: Dalton, Joe; Stout, Kimberly; Hoaglund, Roger  
 > Subject: language  
 > Importance: High  
 >  
 > alan We propose to add the following language to the email in lieu of the

> proposed blended pricing; "Qwest agrees to negotiate with Cable and  
 > Wireless spot market and/or blended rates for the aforementioned  
 > capacities within 90 days of the date of this email."  
 >  
 > Please indicate whether this is acceptable to Cable and Wireless so that  
 > we may incorporate this language in to the final email.  
 >  
 > Sincerely,  
 >  
 >  
 > Greg

## QWEST COMMUNICATIONS INTERNATIONAL INC.

## Audit Committee of the Board of Directors

October 29, 2001

A telephonic meeting of the Audit Committee of the Board of Directors (the "Committee") of Qwest Communications International Inc. (the "Corporation") was held Monday, October 29, 2001, commencing at 1:05 P.M. (Denver time).

Present: L.G. Alvarado, J.L. Haines, P.S. Hellman and W.T. Stephens; Mr. Stephens presiding. Also present: R.R. Szeliga, Executive Vice President - Finance and Chief Financial Officer of the Corporation; R. Noles, Vice President - Internal Audit of Qwest Services Corporation ("QSC"), Y.A. Rana, Vice President, Senior Associate General Counsel and Assistant Secretary of the Corporation, M. Schumacher, Vice President and Controller of QSC; and M. Iwan of Andersen LLP ("Andersen"), the Corporation's auditors.

Ms. Szeliga led a discussion regarding the accounting for certain transactions in prior periods. Ms. Szeliga informed the Committee none of the Corporation's Finance Department, Andersen and she herself had been aware of certain terms of the transactions during the periods in which they occurred. Ms. Szeliga told the Committee that, based upon, among other things, the fact that each of the Corporation's Finance Department, Andersen and she herself were previously unaware of certain terms of the transactions, and upon the size of the transactions, it was her view that the Corporation did not need to take any action with respect to accounting or financial reporting for those transactions. Mr. Iwan stated that Andersen agreed with Ms. Szeliga's view of the same. Ms. Szeliga also informed the Committee that she had discussed the matter with J.P. Nacchio, Chairman and Chief Executive Officer of the Corporation and D.S. Tempest, Executive Vice President, General Counsel, Chief Administrative Officer and Secretary of the Corporation, including her assessment of the matters and the reasons for the same, and that Mr. Nacchio and Mr. Tempest were comfortable with Ms. Szeliga's assessment. The Committee was comfortable with the recommendations and positions taken by management based upon, among other things, the recommendations and discussions with Ms. Szeliga and Mr. Iwan.

The Committee requested that management perform a thorough review of its relevant policies and procedures and report back to the Committee at the next meeting.

Upon motion duly made and seconded, the meeting was adjourned at 2:15 P.M. (Denver time).

  
 For the Committee

QECX001178

**Qwest Communications****Chronology of Events****KMC:**

- In late September 2001, in conjunction with reviewing appropriate accounting treatment on Cal Point, discovered "hell or highwater" clause in this agreement
- At this time, corporate accounting was informed that the Cal Point agreement consistent with prior KMC transactions
- As a result, all prior KMC transactions were reviewed to determine whether the accounting treatment for these transactions remained appropriate, given this new information
- Summary of KMC transactions prepared (copy attached)

**Cable & Wireless:**

- On October 22, 2001, corporate accounting was provided with several side letters associated with the 12/00 and subsequent C & W IRU sale transactions
- These side letters were not disclosed to corporate accounting prior to this time
- Based upon the language in these side letters, CFO was informed of their existence, and an analysis was performed on all C & W agreements since 1/2000
- On October 23, 2001, a meeting was held with representatives from legal (Gallegos, Baer), the corporate pricing group (Hoaglund) and wholesale finance (Eveleth) to discuss side letter contents. At this meeting request made of legal and pricing to formally request from BU sales reps whether other side letters exist on any transactions from 1/2000 forward.
- To date, no additional side letters have been provided to corporate accounting.
- Request was made of legal to determine whether disclosed side letters are legally binding documents.

## Preliminary Corporate Accounting findings:

• **KMC:**

- Revenue and EBITDA recognition for 2000 transactions appropriate
- Revenue recognition for 2001 transactions appropriate
- EBITDA recognition for 2001 transactions probably not appropriate

• **Cable & Wireless:**

- Revenue and EBITDA recognition for 12/00 and 3/01 transactions may be inappropriate assuming side letters are legally binding on the company
- While existence of side letters at the time of these transactions cannot be cured, CFO has communicated to President and Senior VP-Wholesale, that under no circumstances will the option period be extended beyond 12/31/01, and that no circuits previously sold can be upgraded for higher speed circuits on the same route or alternate circuits.

Restatement considerations:

- Since misstatements not made intentionally, materiality standards in SAB 99 do not apply
- Materiality computations (including both KMC and C&W transactions) (details attached):

|         | <u>4Q 00</u> | <u>Total 2000</u> | <u>1Q 01</u> | <u>2Q01</u> | <u>Total 2001</u> |
|---------|--------------|-------------------|--------------|-------------|-------------------|
| Revenue | 2.2          | .6%               | 1.4%         |             | .5%               |
| EBITDA  | 3.1%         | .8%               | 4.2%         | 1.8%        | 2.1%              |

Company Conclusions:

- Based upon the % impact indicated in the above computations, and considering that the misstatements were not intentional, the company believes that restatement is not necessary
- Not allowing trade in on C & W transactions mitigates accounting risk- worst case revenue would be recognized 4Q 2001.

From: Franklin, Richard [Richard.Franklin@cwcom.cwplc.com]  
 Sent: Friday, December 28, 2001 1:41 PM  
 To: Gordon, Martin@qwest.com  
 Cc: Deborah.Petrie@qwest.com  
 Subject: FW: Meeting actions



Final Reallocation  
 Letter.doc

Gordon,

I have been trying to fax the attached to you at 303 992 2789 which I believe is your fax number but get a ringing tone but no response. I have faxed to Joe Dalton. If you would like a faxed copy grateful if you could advise me of a working fax number.

Regards

Richard Franklin  
 Director, Bandwidth Risk Management  
 Cable and Wireless  
 > Delivering the Internet promise  
 > www.cw.com  
 >  
 > email richard.franklin@cwcom.cwplc.com  
 > Tel +44 (0) 20 7315 6384  
 > Fax +44 (0) 20 7528 3001  
 > Mob +44 (0) 7879 434 949  
 > Post 26 Red Lion Square, London, WC1R 4HQ, United Kingdom  
 >  
 >

> -----Original Message-----  
 > From: Franklin, Richard  
 > Sent: 28 December 2001 16:01  
 > To: 'Petrie, Deb'; 'Hoaglund, Roger';  
 > Cc: 'Dalton, Joe (VP)'; 'Copeland, Stephanie X'; McGrath, Andrew;  
 > Jarman, David@gmail  
 > Subject: RE: Meeting actions  
 >  
 >

> <<Final Reallocation Letter.doc>>  
 >  
 > Deb,  
 >  
 > Attached letter faxed to Gordon Martin, Joe Dalton, and Qwest General  
 > Counsel this afternoon, FedEx copy also sent this afternoon.  
 >  
 > Regards  
 >  
 > Richard

\*\*\*\*\*  
 This message may contain information which is confidential or privileged.  
 If you are not the intended recipient, please advise the sender immediately  
 by reply e-mail and delete this message and any attachments  
 without retaining a copy.

QEC 199105

QEC 199106

28 December 2001

BY FACIMILE AND POST

Qwest Communications  
Gordon Martin Senior Vice President – Wholesale Markets  
555 Seventeenth Street  
Denver, Colorado 80202  
Facsimile No: (303) 992-1724

CC:

Executive Vice President & General Counsel

Joe Dalton VP Worldwide Sales Wholesale Markets

Re: Exercise of Option Rights by Cable & Wireless

Dear Sirs

We write further to the letter sent from Cable & Wireless to Joe Dalton dated 2 December 2001 and in accordance with clause 15.1 of the IRU Agreement entered into on 31 March 2000 between Qwest Communications Corporation ("Qwest") and Cable & Wireless (USA) INC ("Cable & Wireless"), as amended, ("the Agreement"). This letter serves as Cable & Wireless' exercise of its rights of exchange pursuant to the letter (the "Side Letter") from Gregory M. Casey, EVP-Wholesale Markets, Qwest Communications to Alan Coe, SVP, Partner Services Cable & Wireless.

The Side Letter gives Cable & Wireless the right, at Cable & Wireless' option, to exchange any or all of the capacity accepted by Cable & Wireless pursuant to Clause 5.4 of the Agreement and the Third Amendment to IRU agreement between Qwest and Cable & Wireless, dated December 27, 2000 (the "Third Amendment").

Cable & Wireless hereby exchanges all capacity accepted pursuant to the Third Amendment for the routes identified in Appendix 1A to this letter, with delivery to Cable & Wireless of these routes on or before 30 March 2002, unless earlier specified.

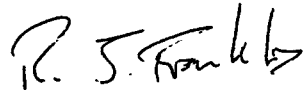
As Cable & Wireless has not received specific details of the current fair market rate applicable to the exchanged capacity, Cable & Wireless has applied the pricing for OC-192 capacity as set out in the Side Letter.

QEC199107



Quest has stated, in recent discussions between Roger Hoaglund of Qwest and the writer, that the value of the original allocation of OC-48 capacity accepted pursuant to the Third Amendment has a current market value equal to or in excess of the original \$109,502,668.80. Cable & Wireless has spent the amount assigned to the original OC-48 allocation (\$109,502,668.80) against OC-192 capacity using the sales DSO rates set out in the Side Letter.

Kind Regards

A handwritten signature in black ink, appearing to read "R. J. Franklin". The signature is written in a cursive, flowing style with a long horizontal stroke at the end.

Richard Franklin  
Director Bandwidth Risk Management

QEC199108

## Appendix 1A

| Route                  | Miles | 1st Wavelength | Other Wavelengths | Wavelengths | Total Cost |
|------------------------|-------|----------------|-------------------|-------------|------------|
| Boston - Cleveland     | 552   | 3,561,062      | 1,353,204         | 5           | 8,973,877  |
| NY - Chicago           | 714   | 4,606,167      | 1,750,340         | 5           | 11,607,515 |
| Boston - NY            | 190   | 1,225,726      | 686,408           | 5           | 3,971,359  |
| LA - Sacramento        | 351   | 2,264,371      | 880,481           | 5           | 5,706,215  |
| Chicago - DC           | 598   | 3,857,818      | 1,500,291         | 5           | 9,658,562  |
| LA - San Francisco     | 344   | 2,219,213      | 843,301           | 5           | 5,592,416  |
| Chicago - Kansas City  | 407   | 2,625,638      | 987,743           | 5           | 6,616,609  |
| NY - DC                | 204   | 1,316,045      | 519,709           | 5           | 3,394,879  |
| Los Angeles - San Jose | 293   | 1,890,202      | 718,277           | 5           | 4,763,308  |
| Dallas - Houston       | 224   | 1,445,069      | 534,417           | 5           | 3,582,738  |
| Chicago - San Jose     | 1836  | 11,844,403     | 4,500,873         | 5           | 29,847,696 |
| LA - DC                | 2308  | 14,889,370     | 5,618,737         | 1           | 14,889,370 |

QEC199109

**Smiley, Kimberly**

**From:** McGrath, Andrew [Andrew.McGrath@cwcom.cwplc.com]  
**Sent:** Tuesday, February 19, 2002 1:34 AM  
**To:** Martin, Gordon  
**Subject:** Wallace / Nacchio Letter - forewarning

Gordon,

FYI - below is early sight of the letter that Graham Wallace shall be sending this week to Joe Nacchio.

Andrew

BY POST AND FACSIMILE

[ ] February 2001

Joseph P. Nacchio  
 Chief Executive Officer  
 Qwest Communications Corporation  
 555 Seventeenth Street  
 Denver, Colorado 80202

Re: Exercise of Rights by Cable & Wireless

Dear Mr. Nacchio:

I am writing to request that Qwest honour the notice that Cable & Wireless issued to Qwest in accordance with Cable & Wireless' rights to swap out capacity under the '109' agreement. This matter needs your immediate attention.

In summary, my team served Qwest with a written notice on 28 December 2001 exercising Cable & Wireless' contractual rights to exchange capacity in accordance with clause 5.4 of the IRU Agreement entered into by the parties on 31 March 2000 (and later amended on 27 December 2000) and with a further letter from Greg Casey of Qwest issued on about 28 December 2000. The exercise was based on pricing made available in Greg Casey's letter.

On 29 December 2000, Cable & Wireless also received further correspondence from Afshin Mohebbi, COO of Qwest Communications, again confirming the understanding of the parties and allaying any fear that the wording and intent of the agreements between Qwest and Cable & Wireless could be misconstrued. Specifically, the correspondence states that "Qwest guarantees that should Cable & Wireless request such a trade prior to 31 December 2001, then Qwest shall provide such capacity...."

In response to our exercise notice, on 28 December 2001, your team sent us correspondence offering new rates valid for ninety (90) days from that date. We have recently requested clarification from Qwest regarding the practicalities of implementing the exchange under these new rates and have now been informed by Qwest to our great surprise that those rates, and the original contract rights, have been withdrawn. As you are fully aware, our contractual rights cannot simply be unilaterally withdrawn.

Accordingly, Cable & Wireless requires that Qwest honour its contractual commitments and facilitate the exchange of that capacity in accordance with the terms and intent of the original agreements between the parties.

In order to preserve our longstanding and fruitful relationship, I am sure that you agree that this matter needs to be resolved rapidly so that we can clear path to conclude future initiatives.

I look forward to your response.

1

346

Yours sincerely,

Graham Wallace

2

---

FOIA Confidential Treatment Requested by Qwest Communications Int'l Inc.

QEC 203671

- Tell ~~me~~ Morgan Stanley **Qwest**  
 Strategy to handle this issue  
 Theresa - don't over react publicly  
 Reconfirm this in extra duty 5/11/01  
 1) Have press release with  
 my comment - that's fine  
 2) Listen to feedback while ~~maneuver~~  
~~to~~ - Watch stock price  
 Chosley - Call w/ Solomon/Doherty  
 3) Issue 8(k) as soon as ~~needed~~  
 practicable following  
 in comments from RHP  
 tailoring 8(k) to fit level  
 of interest and reaction.  
 4) Quietly Close Morgan Stanley  
 out of Co -  
 trading  
 personal wealth mgmt  
 option ex program  
 the opportunities -  
 5) April 11th 4:30 pm - called Graham  
 Work w/ Solomon to get out  
 the note - RHP -  
 6) Hold Audit Committee call -

Qwest.

Case Points

1. No accounting improprieties
2. Questioning our integrity
3. Unsubstantiated allegations  
regarding future financial  
statements being raised  
that are inconsequential

④ It is firmly believed after numerous calls of margin that these  
our principles built to pass  
with others before these  
issues were so without  
merit and the analyses  
so weak, riddled with  
inaccuracies, that we  
believed they would not  
issue a note without  
guidance

100 <20>  
 100 <20> 80  
 100 <20> 80  
 ↑

Qwest.

② Upon seeing the note  
we are convinced more  
than ever that this  
note has no merit and  
lacks business insight.

③ Given this note is out  
I will touch on the  
major issues outlined  
Purchase price allocations



## CONFIDENTIAL

**From:** Dawson, S. Wallace  
**To:** Gutierrez, Matthew; Tingley, Jon B.; Perrone, Joseph P; Dullabh, Susan  
**CC:** Dullabh, Susan; Ovadia, Michelle  
**BCC:**  
**Subject:** Qwest transaction{F}  
**Date:** 3/29/2001 4:41:47 PM

---

**Attachments:**

---

Folks,

As we discussed, it's approved by me with the caveats discussed (i.e., intention to sell the wavelengths and not integrate into the GC network).

Wally

-----Original Message-----

**From:** Gutierrez, Matthew  
**Sent:** Thursday, March 29, 2001 3:48 PM  
**To:** Dawson, S. Wallace; Tingley, Jon B.; Perrone, Joseph P; Dullabh, Susan  
**Cc:** Dullabh, Susan; Ovadia, Michelle  
**Subject:** Qwest transaction

Based on our telephonic meeting and subject to the final business case review. Please approve the following purchase from Qwest totaling \$105M.:

- (1) \$45M of Dark Fiber and Coduit in Europe (20 year IRU's)
- (2) \$60M of wavelengths in NA (20 year IRU's)
- (3) Agreements include option to upgrade capacity. Upgraded capacity has the same terms as original capacity (term, specific asset etc.).

Matt Gutierrez

04228910: Qwest Alternative

file:///D:/HEC Five Users(203) minus exc...L/0000000000000001/0000000003D40E2E.HT

**CONFIDENTIAL**

**From:** Morris, Charles  
**To:** Mondello, Richard; Dawson, S. Wallace  
**CC:**  
**BCC:**  
**Subject:** Qwest Alternative  
**Date:** 9/24/2001 6:50:46 PM

---

**Attachments:**

---

Can we turn up MAC Waves for Qwest for their revenue recognition purposes instead of PEC? I know we don't have SDH on it, but maybe we can structure the deal that we can borrow back the two waves to integrate them into our SDH until we turn up the SAC stuff. Any thoughts??

Chuck Morris  
Director of Business Development  
Global Crossing Development Company  
973-410-8619 - Madison  
212-658-8259 - New York City  
cmorris@globalcrossing.com

06/03/2002 2:49 P

Mondello, Richard

ASSETS

From: Alu, Carl  
 Sent: Thursday, September 27, 2001 10:51 AM  
 To: Mondello, Richard  
 Subject: FW: Grivner Staff mtg/ Action Item

Importance: High

Follow Up Flag: Follow up  
 Due By: Wednesday, September 26, 2001 6:00 PM  
 Flag Status: Flagged

\* JOE VIEW: 700  
 - 300 = Sales  
 400  
 200 = 360  
 200 = Left  
 (no problem)

-----Original Message-----

From: Alu, Carl  
 Sent: Wednesday, September 26, 2001 2:33 PM  
 To: Dawson, S. Wallace  
 Cc: Carey, David  
 Subject: Grivner Staff mtg/ Action Item  
 Importance: High

Wally:

I picked up an action item from Mr. Grivner, after you stepped out of the room. Rich coached that I secure your input before I execute.

Specifically, I was asked to find time soon (24-48 hrs) to take Joe Perrone through the Purchased Assets presentation, with the intent being that we should:

- Act to write-off those assets we are not going to integrate (and likely will not be able to sell for much, if at all), as quickly as possible.
- Make sure the potential write-off (cumulative to-date and future deals) is adequately budgeted for.

My concern is that, for various reasons, Joe Perrone may not want to really hear that we are at the write-off stage so quickly. I am seeking your input as to how you would like me to proceed. Perhaps you may want to:

- Have a brief word with Joe, before I contact him;
- Handle taking him through the presentation, yourself;
- Be present, with me;
- Have Dave Carey interface with Joe (rather than me);
- Have me contact Joe straight away.

Please advise. Thanks, in advance.

(A soft copy of the presentation you saw is attached for your files. I have additional material you may want to see; let me know.)

Carl

CARL J. ALU  
 1-873-410-8711

## CONFIDENTIALITY NOTE:

The information contained in this email message is legally privileged and confidential information intended only for the use of the individual or entity to whom it is addressed. If the reader of this message is not the intended recipient, you are hereby notified that any dissemination, distribution or copy of this message is strictly prohibited. If you have received this email in error, please immediately notify us by telephone, fax, or email and delete the message. Thank you.

Rich -  
 A scenario analysis  
 with back-up.  
 A lot of re-work went  
 into this including a  
 session with Mitroff, Lunde,  
 Carey, Kagan, others to  
 ascertain a better view  
 of what we plan to  
 integrate  
 Carl

GX-HEC-06162

**CONFIDENTIAL**

**From:** Delorimier, Jami  
**To:** Nash, Chris; Joggerst, Patrick  
**CC:**  
**BCC:**  
**Subject:** Asset Disposition  
**Date:** 11/29/2001 12:46:18 PM  
**Attachments:**

---

Chris,

Patrick's group has been charged with disposing of approx \$100M worth of fiber and wavelength assets that we purchased from Qwest but have now decided not to integrate into our network.

This will be a really hard sell within the carrier community--we have no visibility, no control, etc

I think the better play might be to offer these as 'distressed assets' to a distressed asset focused company. One of those that we constantly hear are bottom fishing the bankruptcy courts.

I'm hoping that you have some interaction with these companies. Do you see this as being a possible fit?

Would appreciate your comments/advice.

Thanks

Jami  
703-887-5316

## MORGAN STANLEY DEAN WITTER

Comment Page 1

Equity Research  
North America

United States of America

Telecom - Wireline

## Qwest Communications

Reuters: Q.N Bloomberg: Q NYSE: Q

Simon Flannery  
+1 (1212) 761 6432  
Simon.Flannery@morganstanley.com  
Jeffrey Camp  
+1 (1212) 761 3112  
Jeff.Camp@morganstanley.com  
Trevor Harris  
+1 (1212) 761 4713  
Trevor.Harris@morganstanley.com  
Patricia Fairfield

## DOWNGRADING TO NEUTRAL

Price (June 19, 2001): \$31.27  
Price Target: n/a  
52-Week Range: \$58-29

## WHAT'S CHANGED

2002(E) EPS to \$0.61 from \$0.78  
2003(E) EPS to \$0.75 from \$1.04

## Change in Recommendation

June 20, 2001

*Qwest: Listening to the 10-K*

## • Accounting review highlights new insights

A review of Qwest's recent 10-K and previous financial reports provides insights into past and future earnings power.

## • Significant net tangible asset write off

We believe that as part of the merger with US West, Qwest quietly wrote off \$2.1 billion in tangible net assets last year.

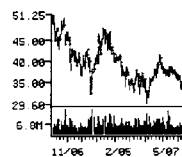
## • Other items also affect earnings quality

In this note we also detail a series of other items including significant capitalization of expenses and changes in pension assumptions.

## • Downgrading to Neutral and cutting estimates

We are lowering our rating from Outperform to Neutral and cutting our long term forecasts to reflect a lack of visibility stemming from these issues and industry weakness.

## Stock Price Performance



Source: ILY

## Company Description

Qwest Communications is a full service telecommunications provider of nationwide voice and data local and long distance services.

| FY ending Dec 31:             | 2000A | 2001E | 2002E | 2003E |
|-------------------------------|-------|-------|-------|-------|
| EPS (\$)                      | 0.59  | 0.58  | 0.61  | 0.75  |
| Prior EPS Est. (\$)           | -     | -     | 0.78  | 1.04  |
| Consensus EPS Est. (\$)       | -     | -     | -     | -     |
| CEPS (\$)                     | 1.25  | 1.24  | 1.27  | 1.39  |
| P/E                           | 53.0  | 53.9  | 51.3  | 41.7  |
| P/E Rel. to (local index) (%) | -     | -     | -     | -     |
| P/C                           | 25.0  | 25.2  | 24.6  | 22.5  |
| Price/Book                    | -     | -     | -     | -     |
| EV/EBITDA                     | 9.6   | 8.3   | 7.4   | 6.6   |
| Yield (%)                     | 0.1   | 0.0   | 0.0   | 0.1   |

| Market Cap (\$ m)             | 51,349 | Q/rev | 2000 actual | 2001E curr | 2001E prior | 2001E curr |
|-------------------------------|--------|-------|-------------|------------|-------------|------------|
| Enterprise Value (\$ m)       | 70,861 | EPS   |             |            |             |            |
| Debt/Cap (03/01) (%)          | 29.9   | Q1    | 0.14        | 0.13A      |             |            |
| Return on Equity (03/01) (%)  | 2.4    | Q2    | 0.15        | 0.14E      |             |            |
| L-T EPS Grth. ('01 - '06) (%) | 20.7   | Q3    | 0.14        | 0.14E      |             |            |
| P/E to Growth                 | 1.93   | Q4    | 0.16        | 0.17E      |             |            |
| Shares Outstanding (m)        | 1661.3 |       |             |            |             |            |

E = Morgan Stanley Research Estimates

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## Qwest: Listening to the 10-K

### Summary and Investment Conclusion

We are downgrading Qwest from Outperform to Neutral, and are also lowering our long-term growth forecasts for the company. These actions arise from a deteriorating economic and industry environment and from greater uncertainty stemming from accounting decisions made since the Qwest merger with US West. We continue to see more evidence of slower growth for the telecom industry. And while we believe Qwest will likely be one of the long-term survivors in the telecom sector, we advise investors to be cautious for now.

We have left our 2001 estimates largely unchanged following Qwest's repeated reiterations of its guidance. In light of the issues enunciated above, we have, however, lowered our longer-term outlook. For 2002 we have lowered our revenue growth forecast from 14.7% to a still very healthy 13.1%, for a total revenue estimate of \$24.4B. We also lowered EBITDA estimates by 6% to \$9.5B, a 39% margin. Cash EPS falls to \$1.27 from \$1.44. For the 2001 to 2006 period we now forecast revenue growth of 12% vs. 14% previously; EBITDA growth of 11% vs. 16% previously, and cash EPS growth of 11% vs. 19% forecasted earlier. Exhibit 1 summarizes our new forecast.

### Details

We have recently conducted an extensive review of Qwest's financial statements. This report was prepared with the assistance of Trevor Harris, professor of accounting at Columbia University, and currently head of Morgan Stanley's valuation and accounting research group, and his team. Our analysis leads us to the conclusion that the company has taken a number of financial actions that could have an important bearing on the sustainability of future earnings growth and capital needs. While some of the items will be discussed in qualitative terms, Exhibit 2 summarizes

the impact on earnings of those accounting items for which we could estimate their impact on full-year 2000 earnings.

We believe four primary and several secondary items warrant close investor attention (Exhibit 3). In all Morgan Stanley's *Apples-to-Apples* work, we have focused on what financial statements tell us about the economic performance of a company rather than what the GAAP rules may or may not require. As with all measures of accounting, the conclusions one might draw from the figures about the implications on expected profitability are subject to interpretation. We present the facts as we understand them, and add our own interpretation of the implications.

### Exhibit 1

#### Qwest - 2001-2006 Forecast

| (In \$)  | 2001E  | 2002E  |        | Growth ('01-'06) |     |
|----------|--------|--------|--------|------------------|-----|
|          |        | NEW    | OLD    | NEW              | OLD |
| Revenue  | 21,593 | 24,418 | 24,772 | 12%              | 14% |
| EBITDA   | 8,549  | 9,535  | 10,131 | 11%              | 16% |
| GAAP EPS | \$0.58 | \$0.61 | \$0.78 | 21%              | 33% |
| Cash EPS | \$1.24 | \$1.27 | \$1.44 | 11%              | 19% |

Source: Morgan Stanley Research.

### Exhibit 2

#### Estimated EPS Impact of Key Items

| (In \$/share)                     | 2000   |
|-----------------------------------|--------|
| Pension Plan                      | \$0.15 |
| PP&E                              | 0.06   |
| Capitalized Interest and Software | 0.07   |
| Total Estimated Impact            | \$0.28 |
| Reported GAAP EPS                 | 0.59   |
| Reported "Cash" EPS               | 1.25   |

Source: Company data; Morgan Stanley Research Estimates

All estimates are tax adjusted at 35% and we have assumed capitalized software and interest would be amortizable over 5 years.

Qwest Communications - June 20, 2001

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Exhibit 3

## Summary of Key Issues at Qwest

| Issue  | Comments  |
|--|---|
| <b>Write-downs in Adjustments of the Purchase Price Allocation</b> | As part of its merger with US West, we believe Qwest wrote off approximately \$2.1 billion (pre tax) of (old) Qwest tangible net assets. This write-off would have been separate from the \$1.75 bn in merger-related and other charges reported in Q's 12/31/00 earnings and a further \$208 million charge reported in 1Q01. Although we do not have full details, we estimate that \$1.0 bn of the incremental write-off was for PP&E (including about half for LCI assets), and \$1.1 bn for provisions concerning such items as contracts and other legal liabilities. For an adjustment in the purchase price under US GAAP, these obligations and asset impairments for old Qwest had to exist at the date of the merger, yet it appears to us the adjustments were only made after this date and remain largely undisclosed. In the purchase price allocation adjustments made between 6/30/00 and 9/30/00, there is also an additional \$1.6 bn increase in deferred taxes from the write-up of separable intangible assets, as required by U.S. GAAP. |
| <b>KPNQwest Write-Down</b>   | We expect Qwest will need to take a substantial write down to the value of its 44.5% investment in KPN Qwest. The investment is currently carried on the books at approximately \$7.4bn, the value at the date of the merger, although at current market prices for KPN Qwest the value in the market is closer to \$2bn. While the market is clearly cognizant of this possibility, the potential write down is sizable. The KPN Qwest assets were written up as part of the "reverse merger" accounting, so any write-down taken before June 30, 2001 could require a further adjustment to the purchase price allocation. This would in turn raise a new question about whether goodwill will need to be adjusted for impairment under the new FASB rules that we expect will become effective on July 1 2001.   |
| <b>Pension Assumptions</b>   | Qwest (via U.S. West) increased the discount rate on pension liabilities to 8% from 6.75% and the return on plan assets to 9.4% from 8.8% for its fiscal year end 2000. This had the effect of raising the pension benefit recorded in operating income. While these return assumptions are within the range of those used by other Bell companies, the accounting changes that help income are unlikely to be sustainable, especially as actual returns on pension assets have turned negative, and as Qwest has increased pension benefits payable in 2002 and 2003.  |
| <b>Capitalized Software</b>  | Accounting rules require software costs to be capitalized. The level of costs capitalized at Qwest is high relative to its competitors. In 1999 cumulative capitalized software for US West appears to have been \$800mn, and we understand the 1999 amount for (old) Qwest was approx \$170 mn (net). Only \$114mn of the capitalized software was written off as a result of the merger, and at 12/31/00 we estimate Qwest's gross capitalized software to be approximately \$1,640 mn. This suggests approximately \$780 million in incremental capitalized software costs, which would seem a higher multiple of sales than in its competitors. Qwest is expected to capitalize an additional \$600mn in 2001. Over-capitalization leads to higher current earnings, when the cash is being spent, but depresses future earnings.   |

Source: Qwest public filings, MS Research

Qwest Communications - June 20, 2001

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**1 - Write-offs in purchase price allocation**

The most important finding in our study relates to the somewhat arcane art of purchase accounting. Under U.S. GAAP, a company has 12 months from the closing of a merger to finalize the purchase price allocation. This allows the acquiring company the opportunity to assess the fair-values of the acquired net assets once it gets into the target and learns the details. These adjustments cannot be made for changing business conditions that occur after the completion of the merger.

In this case, however, while Qwest is the legal acquirer, the accounting was done as a "reverse acquisition," so that in accounting terms, US WEST was deemed to be the acquirer. This means, in essence, that under US GAAP, the purchase price allocation and adjustments relating to the merger are concerned with the pre-acquisition net assets (tangible, intangible, and other identifiable assets and liabilities) of Qwest, with the balance being attributable to goodwill.

Our analysis shows that between 6/30/00 and 12/31/00 there was a \$3.1 billion after-tax reduction in the tangible net assets originally recorded at the date of the merger. On a pre-tax basis, we believe this consists of the following items:

1. PP&E write down of about \$1 billion (pre-tax).
2. Additional accruals of \$1.1 billion (pre-tax)
3. An incremental deferred tax liability of \$1.6 billion arising as a result of tax-effecting the write-up of identifiable intangible assets, which we believe occurred at 9/30/00. This deferred tax provision is required under US GAAP.

Our calculations are based on a review of documents filed with the SEC starting with the S-4 filed 9/19/99, and subsequent 10Q and 10K filings. The exhibits below summarize the key elements of these filings. At 6/30/00, the company identified total tangible net assets of \$11.1 billion, about \$3.7 billion from the acquisition and a \$7.4 billion value for KPN Qwest. By the time the 10K was filed, tangible net assets were just \$8.0 billion, or \$3.1 billion lower than previously stated.

The \$3.1 billion write-down of tangible net assets strikes us as unusual, given the apparent lack of disclosure of details concerning the adjustment and the potentially significant impact on reported results. In order for the write-off in

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PP&E to be adjusted in the purchase price allocation, the fair values of Qwest assets and any possible impairment (based on fair value) would have to be unknown or not ascertainable at 6/30/00. This is because of the "reverse acquisition" character of the merger. While Qwest was a stand-alone entity it could avoid an impairment charge under current US rules (FAS 121) if the assets were in operation and generating any cash flow. However, on the date of the acquisition any possible impairment should be estimated and recorded, as the company should have been aware of a need to write down the book value to fair value at 6/30/00. The full fair value exercise was apparently only undertaken after the filing date of the 6/30/00 10-Q.

**There are several important implications for investors in the apparent need for a write-off of Qwest's PP&E at 6/30/00.** First, by reducing gross plant, the ongoing depreciable asset base drops, cutting perhaps \$100 million annually from the depreciation charge and boosting earnings by about \$0.06 per share — a significant write off. At 3/31/00, the last separate filing by Qwest, net PP&E was stated at \$4.9 billion. Thus, some 20% of PP&E was apparently written off by this charge. A significant portion of the write off may relate to assets purchased as part of the acquisition of LCI International back in June 1998. However, we estimate that the tangible net assets of LCI totaled less than \$400 million at the time of purchase.

Just as important for investors is the question of the true earning power of the old Qwest assets, given that a substantial portion was not written off even though it may well have been economically impaired at 6/30/00. Exhibit 2 gives our estimate of the extent of the impact of these changes for the year 2000.

The balance of the net tangible asset write-down appears to represent a series of provisions and accruals totaling some \$1.1 billion gross, or approximately \$720 million net of taxes. This relates to various contracts and other legal accruals. Once again, under GAAP purchase accounting rules for reverse acquisitions, to be part of the purchase price adjustment the economic obligations or losses had to exist at 6/30/00 but Qwest had to be either unaware they existed or unable to estimate any value for them. Our interpretation of the 10K suggests that these accruals appear as accrued expenses in the other category, because "other" current liabilities in 2000 increased by \$1.54 billion from 12/99 (just U S WEST) to 12/00.



These charges are entirely separate from similar provisions included as part of the \$1.752 billion merger-related and other restructuring charges taken at the time.

#### Impact of purchase price adjustments

There are two clear impacts from the apparent write off of tangible assets late last year. The first is one of earnings visibility. These write-offs are significant in scale in relation to the operations of Qwest prior to the merger. The adjustments directly address the issue of quality of earnings.

The second impact is one of disclosure. Knowledge of these adjustments helps investors understand Qwest's earnings power and financial position. From our point of view, this is information investors would find useful.

From a profit and loss point of view, the reduction in depreciation and the use of accruals should have the impact of increasing earnings. While this may help to maintain short-term earnings and even EBITDA growth within the company's current projections, it will not be an accurate reflection of the earnings power of the company's underlying assets, and makes future visibility more opaque, in our view.

We summarize the changes in the purchase price allocation over time in Exhibit 4 (Exhibits 5-7 detail the movements; we highlight in italics the changes in tangible net assets). The apparent reclassification of Qwest's stake in KPN Qwest from a separately stated asset first to intangibles and then to the tangible net assets category makes comparisons difficult.

| Exhibit 4<br>Summary of the Adjustments |                               |   |   |                     |                  |
|---|-------------------------------|---|---|---------------------|------------------|
| Description<br>\$ billions              | Pro Forma<br>5-4/A<br>9/17/99 | Old Qwest<br>Pre-acquisition 10Q<br>3/31/00 | Consolidated<br>Post-acquisition 10Q<br>6/30/00 | 10-Q<br>9/30/00     | 10-K<br>12/31/00 |
| Exhibit                                 | -                             | -   | 5   | 6                   | 7                |
| Purchase price                          | \$27.7                        | NA  | \$40.0  | \$40.0              | \$40.0           |
| Investment in                           |                               |   |   |                     |                  |
| KPN Qwest                               | 0.3 <sup>1</sup>              | 0.572                                       | 7.4   | Not stated          | Not stated       |
| Intangibles - Specified                 | 0.0                           | -   | Not stated                                      | 11.5 <sup>4</sup>   | 4.1              |
| Tangible net assets                     | 3.7 <sup>2</sup>              | 1.790                                       | 3.7   | 2.6 <sup>3</sup>    | 8.0 <sup>5</sup> |
| Goodwill                                | 23.7                          | 3.263                                       | 29.0  | 27.9                | 27.9             |
| Other                                   | -                             | 1.450 <sup>6</sup>                          | -   | -                   | -                |
| Total                                   | \$27.7                        | \$7.075                                     | \$40.1  | \$42.0 <sup>7</sup> | \$40.0           |

Source: Company Data and Morgan Stanley Research estimates. <sup>1</sup>Pre-IPO book value. <sup>2</sup>Book value of Qwest's net assets stated at \$2.7 bn in 5-4A. <sup>3</sup>Probably identifiable intangibles. <sup>4</sup>The \$11.5 is attributed to "product technology, customer lists, tradenames, assembled workforce and premium on investment in KPNQwest." If the investment is still at \$7.4 billion the intangibles total is \$4.1 billion. <sup>5</sup>KPNQwest seems to have been reclassified to tangible. Assuming it is still at \$7.4 bn this leaves \$0.6 bn as the total for tangible net assets. <sup>6</sup>Attributing the \$2.0 bn excess allocation at 9/30/00 suggests this adjustment occurred at 9/30/00.

#### Exhibit 5: Purchase Price Allocation from Qwest June 30, 2000 10-Q (excerpt from SEC filing)

A preliminary allocation of the purchase price has been made to certain identified tangible and intangible assets and liabilities of Qwest, based upon information available to management at the date of the preparation of the accompanying financial statements. Upon completion of an appraisal and further analysis, a final allocation will be made that may include certain in-process research and development projects, other intangible assets, such as customer relationships and other tangible assets and liabilities. *The preliminary purchase price allocation is as follows: (i) \$3.7 billion to tangible assets and liabilities, net; (ii) \$7.4 billion to Qwest's investment in KPNQwest N.Y. ("KPNQwest"); and (iii) \$29.0 billion to goodwill,*

*which will be amortized over 40 years. We will complete the final purchase price allocation within one year from the acquisition date. The actual results of operations will differ, perhaps significantly, from the pro forma unaudited results of operations presented below because of a variety of factors, including access to additional information, changes in value not currently identified and changes in operating results between the date of the pro forma financial information and the date the Merger was completed.*

#### Exhibit 6: Purchase Price Allocation from September 30, 2000 10-Q (excerpt from SEC filing)

A preliminary allocation of the purchase price has been made to certain identified tangible and intangible assets and liabilities of Qwest, based upon information available to management at the date of the preparation of the

Qwest Communications - June 20, 2001

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accompanying financial statements. The preliminary purchase price allocation was as follows: (i) \$2.6 billion to tangible assets and liabilities, net; (ii) \$11.5 billion to identified intangibles, including product technology, customer lists, tradenames, assembled workforce and the premium on our investment in KPNQwest N.V.; and (iii) \$27.9 billion to goodwill. The amounts allocated to identified intangible assets and goodwill are being amortized over periods ranging from 3 to 40 years.

#### Exhibit 7:

##### Purchase Price Allocation from December 31, 2000 10-K (except from SEC filing)

The Merger has been accounted for as a reverse acquisition under the purchase method of accounting with U S WEST being deemed the accounting acquirer and Qwest the acquired entity. The total value of the consideration was approximately \$40 billion, which has been allocated to the identifiable tangible and intangible assets and liabilities of Qwest. The preliminary purchase price allocation was as follows: (i) \$8.0 billion to tangible assets and liabilities, net; (ii) \$4.1 billion to identified intangibles, including product technology, customer lists, tradenames and assembled workforce; and (iii) \$27.9 billion to goodwill. The amounts allocated to identifiable intangible assets and goodwill are being amortized over periods ranging from 3 to 40 years. The allocation of purchase price is preliminary and may change upon completion of an appraisal currently being performed on the acquired assets and liabilities of Qwest. The effect of any such change is not expected to be material.

#### 2 - KPN Qwest valuation

We believe it is likely that Qwest will need to take a substantial write down to the value of its 44.5% investment in KPN Qwest. While write-downs on investments are not unusual for the industry, Qwest's stake in KPN Qwest was originally included as part of the purchase price for the merger, so any write-off to the investment could have an impact on goodwill charges going forward. The company currently has its stake valued at \$7.4 billion on its balance sheet based on the market value when the deal closed at 6/30/00. Because new FASB rules concerning amortization and impairment analysis of goodwill are anticipated to go into effect July 1, this may require an impairment charge.

Since the acquisition, the stock price of KPN Qwest, like that of most emerging carriers, has fallen sharply. At 6/30/00 the stock closed at \$39.62, but recently traded at \$8, a drop of 80%. Applying this same proportionate decline to the balance sheet asset would produce a write off of around \$6 billion. Any impairment would be based from a fair

value that could differ from market value, of course, given Qwest's significant stake. Any write off by the end of the second quarter could possibly be treated as a reallocation of the purchase price, if it can be argued that the fair value at 6/30/00 was actually less than \$7.4 bn, which would have the effect of increasing goodwill and reducing investments. This would in turn increase the reported goodwill amortization from 7/1/00 through to the date of adoption of the new goodwill standard.

In a related point, we note that Qwest has not provided deferred tax on this asset. Assuming the \$7.4 billion value of KPN Qwest is appropriate, then deferred tax and goodwill would be understated by some \$2.8 billion. Qwest says it is not accruing the deferred tax on the asset because it is a non-US investment that the company plans not to sell and repatriate funds to the US. Although this is fine, it suggests that Qwest would not be able to tax-effect any write down.

#### Impact of KPN Qwest valuation

The expected write down of the KPN Qwest stake would substantially reduce the disclosed tangible assets of Qwest. We believe the market clearly understands the diminution in value of the KPN Qwest stake, but the scale of the write-down and the impact on balance sheet ratios could still be significant.

#### 3 - Changes in pension assumptions

Like the other Baby Bells, U S WEST has enjoyed a substantial pension surplus. This has allowed these companies to record substantial pension credits in recent years, which have helped boost reported operating earnings. While the surplus exists, and GAAP requires the pension adjustment, the scale of the adjustment can be significantly affected by changes in assumptions about plan returns and discount rates.

For 2000 Qwest (via U S WEST) revised the discount rate used to discount the value of future obligations from 6.75% to 8% (versus a Bell average of 7.75%). This has the effect of reducing the present value of the future obligation. The new discount rate is based on a representative corporate bond rate. At the same time, Qwest raised the expected return on plan assets from 8.8% to 9.4% (vs. a Bell average of 8.9%) despite the recent turmoil in the markets. While other telecom companies have similar assumptions, Qwest (U S WEST) has moved from having the most conservative assumptions used by the phone companies to among the least conservative.

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Investors should note that a recent labor agreement provided back-end-loaded salaries and benefits. Salaries rise 3.5% this year, but 5% in 2002. This will put added pressure on 2002 earnings. Modest salary increases contrast with generous pension enhancements. Pensions are slated to increase by 6% in 2002 and 10% in 2003.

#### Impact of Pension Accounting

The recent changes in assumptions put Qwest's rates above those of the other three Baby Bells. In 2000, Qwest recorded a net pension credit of \$405 million (or \$0.15 per share (after tax), a dramatic swing from the \$8 million pension cost recorded in 1999 (by U S WEST). As with the other Baby Bells, we do not expect similar income accretion in the future, particularly if markets remain difficult. Indeed, the pension fund at Qwest actually recorded a negative return in 2000, as did other Baby Bells. Next year, the 2002 salary increase will also put additional pressure on earnings.

#### 4 - Incremental software capitalization

One of the important changes in accounting in recent years has been the requirement to capitalize software costs. This is very important to telecom companies, which spend hundreds of millions of dollars every year on software. In the first years, applying this policy has the effect of enhancing net income as items previously expensed are capitalized. Longer term, the positive effect on net income is neutralized, as higher depreciation expense is recorded.

Our review of Qwest's software capitalization practices indicated very significant amounts of software being capitalized. In 1999 cumulative gross capitalized software (just U S WEST) totaled approximately \$800 million, of which \$114 million was written off as part of the 2000 merger provisions. Our understanding is that old Qwest had net capitalized software of about \$170 million at 12/31/99. At 12/31/00 the combined new Qwest had gross capitalized software of \$1,634 million, suggesting that the company capitalized approximately \$780 million of software in 2000, and there could be another \$600 million capitalized this year. We believe much of this spending relates to OSS for S. 271 long distance entry.

#### Impact of software capitalization

During periods of high software capitalization, expenses are understated relative to the cash spending, with the reverse as the depreciation catches up. This is part of the reason for the rapid increase in depreciation expense we are seeing. We believe that most of the software capitalized is written

off over a five year period. The increase in EPS is equivalent to about \$0.30 per share after tax if looked at from a cash perspective, or \$0.06 per share each year if amortized over 5 years.

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## Other accounting considerations

### 5 - Incremental capitalization of interest

We have also seen a significant increase in the level of interest capitalized as a result of the step up in capital spending and higher interest rates. Capitalized interest jumped from \$27 million in 1999 for US WEST alone, to \$151 million in 2000. It should be noted that the 1999 figure is for US WEST alone (we believe that Qwest's undisclosed capitalized interest was in the \$50 million range), while the 2000 figure also includes six months of Qwest results. Higher capital spending and higher commercial paper rates were key drivers of the increase.

Reported interest expense for 2000 totaled \$1,041 million, so capitalization had the effect of reducing reported interest expense by some 13%. The increase in EPS is equivalent to about \$0.05 per share after tax if looked at from a cash perspective, or \$0.01 per share per year if amortized over 5 years.

### Impact of capitalization of interest

As with software capitalization, this capitalization is a requirement of US-GAAP, but economically it has the effect of reducing reported interest expense in the income statement, but increasing PP&E and therefore depreciation. This increases current earnings but hurts future earnings unless related revenue growth offsets the incremental cost.

### 6 - Restructuring charge

To date Qwest has recorded nearly \$2 billion of incremental restructuring charges partially related to the merger. The charge in 2000 was \$1.752 billion, with a further charge of \$209 million in first quarter 2001. We expect an additional charge (probably final) in the second quarter. These charges include the costs associated with staff reductions, but also include a variety of other charges and accruals.

#### Exhibit 4

#### Restructuring Charges Through 3/31/2001

| Description                                  | Charge (\$mm)  |
|--|----------------|
| Contractual settlements and terminations     | \$710          |
| Merger bonuses and severance costs           | 545            |
| Termination of software development projects | 114            |
| Write-off of access lines                    | 236            |
| Post-retirement plan curtailment gain        | (106)          |
| Other merger-related costs and charges       | 462            |
| <b>Total</b>                                 | <b>\$1,961</b> |

Source: Qwest SEC filings

### Impact of restructuring charge

These charges are very common in M&A situations, particularly in the telecom sector. Investors should recognize that some of these provisions will create future cash outflows that are not reflected in the income statement of the period.

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Exhibit 8

## Qwest Income Statement

|   | 1998   | 1999   | 2000   | 2001E  | 2002E  | 2003E  | 2004E  | 2005E  | 2006E  | '01-'06 |
|---|--------|--------|--------|--------|--------|--------|--------|--------|--------|---------|
| Commercial (ex-switched, post 98)           | 6,466  | 7,371  | 8,444  | 11,800 | 14,213 | 16,736 | 19,540 | 22,715 | 26,292 | 17%     |
| % y/y growth                                |        | 14.0%  | 28.1%  | 25.0%  | 20.5%  | 17.8%  | 16.8%  | 16.3%  | 15.8%  |         |
| % sequential growth                         |        |        |        |        |        |        |        |        |        |         |
| % total y/y revenue growth                  |        | 31.7%  | 87.8%  | 89.3%  | 85.4%  | 83.9%  | 84.4%  | 85.7%  | 88.0%  |         |
| Consumer and small business                 | 5,827  | 6,065  | 6,202  | 6,283  | 6,424  | 6,568  | 6,733  | 6,901  | 7,074  | 2%      |
| % y/y growth                                |        | 4.1%   | 2.3%   | 1.3%   | 2.3%   | 2.3%   | 2.5%   | 2.5%   | 2.5%   |         |
| % total y/y revenue growth                  |        | 8.3%   | 5.8%   | 3.1%   | 5.0%   | 4.8%   | 4.9%   | 4.8%   | 4.2%   |         |
| Wireless                                    | 94     | 236    | 494    | 842    | 1,156  | 1,507  | 1,844  | 2,157  | 2,392  | 23%     |
| % y/y growth                                |        | 151.1% | 109.3% | 70.4%  | 37.2%  | 20.4%  | 22.4%  | 17.0%  | 10.9%  |         |
| % total y/y revenue growth                  |        | 5.0%   | 10.9%  | 13.2%  | 11.1%  | 11.7%  | 10.2%  | 8.5%   | 5.8%   |         |
| Total Consumer/Small Business               | 5,921  | 6,301  | 6,696  | 7,125  | 7,580  | 8,075  | 8,577  | 9,058  | 9,466  | 6%      |
| % y/y growth                                |        | 6.4%   | 6.3%   | 6.4%   | 6.4%   | 6.3%   | 6.2%   | 5.6%   | 4.5%   |         |
| % sequential growth                         |        |        |        |        |        |        |        |        |        |         |
| % total y/y revenue growth                  |        | 13.3%  | 16.7%  | 16.2%  | 16.1%  | 16.5%  | 15.1%  | 13.0%  | 10.0%  |         |
| Directory                                   | 1,349  | 1,436  | 1,530  | 1,589  | 1,665  | 1,728  | 1,792  | 1,854  | 1,919  | 4%      |
| % y/y growth                                |        | 6.4%   | 6.5%   | 4.5%   | 4.2%   | 3.8%   | 3.7%   | 3.5%   | 3.5%   |         |
| % total y/y revenue growth                  |        | 3.0%   | 4.0%   | 2.6%   | 2.3%   | 2.1%   | 1.9%   | 1.7%   | 1.6%   |         |
| Switched access                             | 1,486  | 1,284  | 1,069  | 959    | 885    | 839    | 824    | 838    | 838    | -5%     |
| % y/y growth                                |        | 0.0%   | -13.6% | -16.6% | -10.3% | -7.8%  | -5.3%  | -1.8%  | 1.8%   |         |
| % total y/y revenue growth                  |        | 52.0%  | -8.0%  | -6.2%  | -3.9%  | -2.5%  | -1.4%  | -0.4%  | 0.4%   |         |
| Total revenue                               | 13,736 | 16,594 | 18,954 | 21,593 | 24,418 | 27,425 | 30,746 | 34,451 | 38,516 | 12%     |
| % y/y growth                                |        | 20.8%  | 14.2%  | 13.9%  | 13.1%  | 12.3%  | 12.1%  | 12.0%  | 11.8%  |         |
| % sequential growth                         |        |        |        |        |        |        |        |        |        |         |
| Cost of sales                               | 4,442  | 5,906  | 6,767  | 8,131  | 9,303  | 10,531 | 11,899 | 13,436 | 15,060 | 13%     |
| % growth                                    |        | 33.0%  | 14.4%  | 20.2%  | 14.4%  | 13.2%  | 13.0%  | 12.8%  | 12.1%  |         |
| % revenue                                   |        | 32.3%  | 35.8%  | 35.6%  | 37.7%  | 38.1%  | 38.4%  | 38.7%  | 39.1%  |         |
| Gross margin                                | 9,294  | 10,688 | 12,187 | 13,461 | 15,114 | 16,894 | 18,848 | 21,015 | 23,456 | 12%     |
| % growth                                    |        | 15.0%  | 14.1%  | 10.4%  | 12.3%  | 11.8%  | 11.6%  | 11.5%  | 11.6%  |         |
| % revenue                                   |        | 67.7%  | 64.4%  | 64.4%  | 62.3%  | 61.9%  | 61.8%  | 61.0%  | 60.9%  |         |
| Selling, general, and administrative        | 3,866  | 4,406  | 4,829  | 4,913  | 5,580  | 6,240  | 7,011  | 7,873  | 8,821  | 12%     |
| % growth                                    |        | 14.0%  | 9.6%   | 1.7%   | 13.6%  | 11.8%  | 12.4%  | 12.3%  | 12.0%  |         |
| % revenue                                   |        | 26.1%  | 26.6%  | 25.5%  | 22.8%  | 22.8%  | 22.8%  | 22.9%  | 22.9%  |         |
| EBITDA                                      | 5,428  | 6,282  | 7,368  | 8,549  | 9,835  | 10,654 | 11,837 | 13,143 | 14,635 | 11%     |
| % growth                                    |        | 15.7%  | 17.3%  | 16.0%  | 11.5%  | 11.7%  | 11.1%  | 11.0%  | 11.4%  |         |
| % revenue                                   |        | 39.5%  | 37.9%  | 38.9%  | 39.0%  | 38.8%  | 38.5%  | 38.1%  | 38.0%  |         |
| Depreciation                                | 2,315  | 2,539  | 2,790  | 3,841  | 4,267  | 4,892  | 5,615  | 6,136  | 6,786  | 13%     |
| % growth                                    |        | 9.7%   | 10.1%  | 30.2%  | 17.2%  | 14.6%  | 12.7%  | 11.3%  | 10.1%  |         |
| Goodwill and intangibles amortization       | 1,268  | 1,268  | 1,270  | 1,276  | 1,276  | 1,276  | 1,276  | 1,276  | 1,276  | 0%      |
| Operating income                            | 1,845  | 2,475  | 3,352  | 3,632  | 3,991  | 4,486  | 5,048  | 5,730  | 6,803  | 13%     |
| % y/y growth                                |        | 34.1%  | 35.4%  | 10.0%  | 9.9%   | 12.4%  | 12.6%  | 13.6%  | 18.2%  |         |
| Interest expense                            | 830    | 887    | 1,116  | 1,473  | 1,702  | 1,812  | 1,848  | 1,813  | 1,804  | 3%      |
| Other expense (income) net                  | (3)    | (3)    | 43     | 80     | 83     | 51     | 19     | (57)   | (174)  | -217%   |
| Earnings before income taxes                | 1,015  | 1,591  | 2,143  | 2,079  | 2,207  | 2,623  | 3,179  | 3,975  | 5,083  | 20%     |
| % growth                                    |        | 56.7%  | 34.7%  | -3.0%  | 6.1%   | 18.9%  | 21.2%  | 25.0%  | 27.9%  |         |
| Income tax expense (benefit)                | 866    | 943    | 1,148  | 1,107  | 1,157  | 1,314  | 1,522  | 1,820  | 2,236  |         |
| % tax rate                                  | 85.3%  | 59.3%  | 53.6%  | 53.2%  | 52.5%  | 50.1%  | 47.9%  | 45.8%  | 44.0%  |         |
| Net earnings                                | 149    | 648    | 995    | 972    | 1,049  | 1,309  | 1,657  | 2,154  | 2,847  | 24%     |
| % y/y growth                                |        | 334.9% | 53.5%  | -2.3%  | 7.9%   | 24.8%  | 26.5%  | 30.0%  | 32.2%  |         |
| Diluted earnings per share                  | 0.09   | 0.39   | 0.59   | 0.58   | 0.61   | 0.75   | 0.92   | 1.17   | 1.51   | 21%     |
| % growth                                    |        | 333.3% | 51.3%  | -1.7%  | 5.2%   | 23.0%  | 22.7%  | 27.2%  | 29.1%  |         |
| Diluted cash earnings per share             | 0.90   | 1.08   | 1.25   | 1.24   | 1.27   | 1.39   | 1.55   | 1.78   | 2.11   | 11%     |
| % growth                                    |        | 20.0%  | 15.7%  | -0.8%  | 2.4%   | 9.4%   | 11.5%  | 14.0%  | 18.5%  |         |
| Diluted weighted average shares outstanding | 1,572  | 1,645  | 1,688  | 1,687  | 1,708  | 1,751  | 1,795  | 1,840  | 1,886  |         |
| % growth                                    |        | 4.6%   | 2.6%   | -0.1%  | 1.3%   | 2.6%   | 2.5%   | 2.5%   | 2.5%   |         |

Source: Morgan Stanley Research Estimates

Qwest Communications - June 30, 2001

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## **CAPACITY SWAPS BY GLOBAL CROSSING AND QWEST: SHAM TRANSACTIONS DESIGNED TO BOOST REVENUES?**

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**TUESDAY, OCTOBER 1, 2002**

HOUSE OF REPRESENTATIVES,  
COMMITTEE ON ENERGY AND COMMERCE,  
SUBCOMMITTEE ON OVERSIGHT AND INVESTIGATIONS,  
*Washington, DC.*

The subcommittee met, pursuant to notice, at 9 a.m., in room 2322, Rayburn House Office Building, James C. Greenwood (chairman) presiding.

Members present: Representatives Greenwood, Whitfield, Tauzin (ex officio), Deutsch, and DeGette.

Also present: Representative Slaughter.

Staff present: Jennifer Safavian, majority counsel; Casey Hemard, majority counsel; Ann Washington, majority professional staff; Kelli Andrews, majority counsel; Tom Dilenge, majority counsel; Mark Paoletta, majority counsel; Brendan Williams, legislative clerk; Edith Holleman, minority counsel; and Nicole Kenner, minority research assistant.

Mr. GREENWOOD. The committee will come to order. Please be seated.

Good morning. Welcome to the Subcommittee on Oversight and Investigations' second day of hearings focusing on a series of highly questionable business transactions involving the Global Crossing and Qwest Corporations.

We began this hearing last Tuesday by examining a central question: were these transactions to swap fiber optic capacity done for substantive business purposes? Or were they, instead, essentially sham transactions, merely designed to provide the appearance of increased revenues, aimed at deceiving both Wall Street analysts and ordinary investors alike?

Our inquiry has centered on actions by senior employees and executives of both Qwest and Global Crossing who established and implemented the policies, and who made the key decisions for these companies.

But our inquiry also concerns broader matters—matters of accounting and accounting oversight by the executives, corporate boards, and the appropriate regulatory bodies. Our duty here is not just to expose what may be wrongdoing by a handful of individuals, though there is considerable public value to that, but to also determine if there are more substantive accounting policies and over-

sight issues that the Congress and the executive branch need to address.

During our first day of hearings into this matter, we explored in detail some of the capacity swaps entered into by Global Crossing and Qwest. We examined the ostensible reasoning behind these swaps and whether there were side or oral agreements that allowed Qwest, in particular, to account for them illegitimately.

We heard from both current and former employees of both companies involved in these transactions. And we learned of the pressure placed on them from executives at the highest levels to complete these transactions in order to show revenues, however fictitious, during a time of shrinking markets and declining business volume.

As knowledgeable as these witnesses were, however, they were not the ones who determined the high—most knowledgeable observers have said unrealistically high—revenue targets that drove the deal-making decisions. Nor did they create the numbers-obsessed environment in which these deals were made.

The people who created this environment, who made these fateful decisions, are before us today to speak to these matters this morning. Our investigation suggests that these executives continued to find ways to artificially produce quarterly revenue numbers through capacity swaps, even when their employees objected that it had become too difficult to sell substantial amounts of capacity. Now we can hear their side of the story and question them directly about these matters.

In particular, we can ask these executives and board members the same questions that many current and former employees of these companies would ask if they had an opportunity to do so.

Consider Mr. Gary Winnick, Chairman and Founder of Global Crossing, who is before us today. He reportedly cashed in \$735 million from his stock in the company, including over \$100 million in stock sales at a time in May of last year when Global Crossing executives were beginning to realize the extent of the company's financial problems.

Unfortunately, Global Crossing employees and investors were not so lucky. Approximately 10,000 employees lost their jobs, their health care, and their life savings, while investors lost \$54 billion.

We have before us today a woman who was one of the unfortunate investors in, and employees of, Global Crossing. For 31 years, Lenette Crumpler worked at Frontier, which Global Crossing acquired in 2000. Ms. Crumpler had invested \$86,000 in her 401(k) while working for Frontier, which could not have been easy for her to do as a single mother with two children.

She believed in the statements made by Global Crossing executives that the company was in sound financial shape and would successfully “weather the storm.” As a result, she held on to her stock, while the boys in the big corner offices did just the opposite. Sadly, Ms. Crumpler has lost her entire retirement savings.

We also have before us Paula Smith. Ms. Smith is a former Qwest employee who lost \$400,000 in her 401(k) as the price of Qwest stock had fallen significantly. She believed that placing her money into Qwest was a conservative investment. It was her dream to use that money to put her two daughters through college.



I know that they and the many other Global Crossing and Qwest employees who have lost their jobs and their retirement savings want to hear from these executives.

In addition to our focus on past executive actions, we will also hear today from some of the current executives and board members about the future of these companies. They will be able to address our questions concerning Global Crossing and Qwest's future business plans.

I am also eager to learn more about Qwest's recent restatement of its previous financial statements due to its accounting for these capacity swaps, and to learn if we can expect to see similar restatements by Global Crossing. I would also like to learn whether the corporate environment has indeed changed at these companies, and what lessons these current leaders have drawn from these past problems.

Let me thank the witnesses for coming this morning for what promises to be an informative hearing.

The Chair recognizes the ranking member of the committee, Mr. Deutsch of Florida, for 5 minutes for his opening statement.

Mr. DEUTSCH. Thank you, Mr. Chairman. Mr. Chairman, I also have an opening statement that I would like to submit for the record and just share with the committee a couple of thoughts.

You know, in this situation I guess of really suffering, as you have well stated, not just of tens of thousands of Americans, but really of millions of Americans, who have lost more money than has ever been lost in the history of humankind in the last not much more than 18 months to 2 years, you know, where we have retirees who have put off retirement, families who saved for college, money wiped out.

You know, I guess last Thursday's Wall Street Journal had an article in some ways hopefully an optimistic thing—a front page story, which I would like to submit for the record, and the lead headline "Past Crisis Offer Hope for Economy Warnings to Watch. Railroads in 1870's overcame a fiber optic style glut, 1929—viability," and actually have a graph of railroad stocks, which basically looks pretty similar to the stock market over the last 24 months or so. But then, as you can see the graph, had a dramatic change afterwards.

And, obviously, I think all of our hope is that that is, in fact, what will happen, that the economy will kick back into high gear, which I believe it will. I think we have a unique economy in the history of the world.

Hopefully this will be a very constructive hearing. We had I think a good start last week, and we have done a lot of work over the last 18 months in this committee really looking at some of the crisis and really the dislocations that have occurred on a both macro and micro level. And I think this very well might be our last series before the election at this point today.

But I guess, you know, the focus can very well be in this area for this hearing the whole issue of the capacity swaps. And hopefully at the—by the end of the hearing we will have a better understanding and really a better understanding about that particular issue.

I think, as I said last week, when we had Enron—and I think I am—both the chairman and myself have worked very well together, and I think I am proud of the work that we have done, but, really, as importantly, if not more importantly, our staff has done.

When we had Enron in here not that long ago, which was really the first of this series of hearings that Congress has had, I held up a chart describing what Enron had done and talked about—it was in—you know, a number of national papers took pictures of it.

I think in hindsight what we know, what Enron had done, and what seems to be bearing out by prosecutions, was, in fact, illegal and people will go to jail. Absolutely. I think as we are looking at this industry—and it is an industry—which, again, hopefully the graph will look like this in not too long a period of time in terms of fiber optics, that the transactions that occurred here I think are open to a much different analysis.

And for all the work of our committee at this point, as opposed to the Enron investigation, where we found smoking guns and we found illegal activity, at this point we have found practices that I think need further, in a sense, explanation, both to us, to the market, so we can be helpful, because not only do we investigate in this committee but we also have the regulatory side of the telecommunications industry. And maybe we were missing something in terms of our regulatory side as well.

So I look forward to the witnesses' testimony. I am very pleased to learn that Mr. Winnick will be testifying today on his own really offer, which is really the first CEO that I am aware of in this committee that has taken that option. Hopefully we will learn a great deal from him and the other witnesses today regarding that issue.

Thank you, Mr. Chairman.

Mr. GREENWOOD. The Chair thanks the gentleman, and reminds him that Jeffrey Skilling also testified before us, the CEO of Enron.

The lady from Colorado for 5 minutes, Ms. DeGette.

Mr. DEUTSCH. He was no longer the present CEO, Mr. Chairman, at the time. Mr. Chairman, I really would stand corrected on that. Mr. Skilling, when he testified, was not the CEO of the company.

Mr. GREENWOOD. The record will reflect the gentleman's comments.

Go ahead, Ms. DeGette.

Ms. DEGETTE. Thank you, Mr. Chairman.

Mr. DEUTSCH. And he is not the CEO; he is Chairman of the Board. Thank you.

Ms. DEGETTE. Thank you, Mr. Chairman. As I said last week in my opening statement, accounting decisions that were made not just in the telecommunications industry but in the energy industry and in pharmaceutical companies, and really throughout American business, really went to the edge in the 1990's. And today in a softening economy we are now seeing the result of that.

We have two examples of that result sitting right here in front of us—Ms. Crumpler and Ms. Smith. And before I go on, I would like to introduce my colleague, Louise Slaughter, who is a Congresswoman from New York. She has a particular interest in this issue, because Global Crossing is located in her district, and Ms.

Crumpler is one of her constituents. And so on Ms. Slaughter's behalf, I would like to welcome you, Ms. Krumpler.

And since Ms. Slaughter is not a member of this committee, she is not allowed to speak. It is probably the first time Louise has ever been silent.

So just watch out, Mr. Chairman.

But she will submit a statement for the record. Like Ms. Slaughter, I have lost—my constituents have lost jobs, thousands of them. And Paula Smith, who is my constituent and will testify in a moment, is here today. And as we heard, Ms. Smith lost \$400,000 in her 401 stock plan, because under the plan employees were not permitted to sell stock until they reach 55 years old. And so she could not pull her money out of the fund.

That echoes some other testimony we heard just a few months ago. I am looking forward to hearing from Ms. Smith on behalf of all the thousands of my constituents who are now out of work.

I am also pleased, Mr. Chairman, that you have brought in the major players in both of these companies who will let us know from their perspectives exactly why these swamps were made and what the accounting practices were. In particular, I am glad that after my questioning last week we are bringing in Mr. Peter Hellman, who is the chairman of the Qwest Audit Committee, because one of my big concerns throughout this entire process with Enron, with Imclone, and now with the Qwest and Global Crossing hearing, is, what role does the board play—and, in particular, the Audit Committee—in these corporate decisions?

And I think that the testimony we will hear from Mr. Hellman today will give us some insight into what the board's role was and what, if anything, hopefully something, Qwest is doing to tighten the reigns and to make sure that there are stricter controls.

I am looking forward to the testimony today, Mr. Chairman. I want to thank you for continuing these hearings throughout the past year. They have been very helpful in formulating public policy around corporate responsibility and corporate actions. And with that, I will yield back the balance of my time.

Mr. GREENWOOD. The Chair thanks the gentlelady, and also thanks the gentlelady from New York, Ms. Slaughter, for her presence. Ms. Slaughter has shared with me her concerns about her constituents for the past many months. I know that she has held her own hearing on this subject, to inform herself and all of us on the matter. And it was she who helped us find Lenette Crumpler as someone who experienced the losses.

So we thank you for your presence. We regret that the rules of the committee do not allow you to participate in the questioning, and so forth. But we are delighted that you are with us.

Ms. SLAUGHTER. The notes from the forum that we held, may I ask that they be included in the record?

[The information referred to follows:]

**Statement of Representative Louise Slaughter**  
**October 1, 2002**  
**Committee on Energy and Commerce, Subcommittee on Oversight and Investigations**  
**Hearing on Capacity Swaps by Global Crossing and Qwest:**  
**Sham Transactions Designed to Boost Revenues?**

I want to thank Chairman Greenwood, Ranking Member Deutsch and Members of this committee for holding this hearing investigating the business practices of Global Crossing and Qwest.

As the press has reported, it was not unusual for telecommunication companies such as Global Crossing to buy an IRU – essentially a share of Internet bandwidth – mark it up as a capital expense for coming years, then turn around and sell it, recording it as revenue. The expense is left out of the equation, so it looks like pure profit.

Last week's hearing shed a spotlight on the business practices by Global Crossing executives to book "roundtripping" revenues by recording a series of last-minute deals with other carriers, in which the contracts were for nearly identical amounts, for routes that had yet to be specified, or in some cases, on routes that do not even exist.

In one well-known transaction last year with carrier Qwest, Global Crossing signed a \$100 million contract only to "roundtrip" the cash by purchasing a similar amount of undefined capacity from Qwest. These contracts were signed in the first two quarters of last year when network capacity was in ample supply. At the same time, Gary Winnick was selling huge amounts of company stock. By falsely boosting revenues, Global Crossing bilked billions of dollars from investors, not the least of which were workers who held company stock in their 401(k)s, to line the pockets of the executives.

I am struck by the fact that Gary Winnick left Global Crossing with \$734 million, nearly three times the \$247 million Ken Lay realized from his Enron stock sales. Recall that John D. Rockefeller took 25 years to make his first billion. Gary Winnick needed only 18 months.

As you investigate the swap transactions that seemed to be designed to boost revenue right before the end of each quarter, I would like to emphasize the impact of this bankruptcy on the individual worker. I appreciate the opportunity to introduce Lenette Crumpler from my district of Rochester, New York. Lenette is a single mother who worked for 31 years at the phone company and lost the entire value of her 401(k) from Global Crossing. While I am very pleased that Lenette can be here to tell you how the assurances from the executives at Global Crossing and the company's subsequent bankruptcy filing personally impacted her, I want to make clear that my interest in this hearing stems from the fact that, unfortunately, Lynette is not unique. Thousands of people in my district have been similarly affected by Global Crossing's bankruptcy filing.

This committee heard a similar story earlier this year when it held hearings into Enron's collapse and business dealings. With Enron, the company bought Portland General Electric, a stable, local utility company and then robbed the good will and retirement savings of its employees. Global Crossing's tale of destruction centers on Frontier Communications, formerly Rochester Telephone Company, the local telephone company which employed 13,000 workers. Rochester Telephone was never a glamorous stock, but it was a decent steady performer. The company was trusted before it was set on its head by the reckless stewardship of Gary Winnick. Earlier this year, I hosted a public forum in Rochester where 250 people came to share their experiences. I would like to ask that a copy of a transcript from that meeting be included in the record.

Unlike the small shareholders and the company's workers, current and former top executives walked away the winners. Hearings like this one serve as a wake-up call to corporate America that these type of business practices and bankruptcies can be neither sustained nor tolerated. I look forward to hearing Gary Winnick explain how well he sleeps in his \$100 million Bel Air mansion, while so many of my constituents are in danger of losing their homes. I am sure Lenette shares my keen interest.

---

GLOBAL CROSSING PUBLIC HEARING

Presented by: LOUISE SLAUGHTER, Congresswoman

---

Global Crossing Public Hearing, held at The Dugan  
Center, 15 St. Mary's Place, Rochester, New York on  
Saturday, March 9, 2002, commencing at 12 o'clock p.m.

APPEARANCES: RICHARD DOLLINGER, Senator  
SUSAN JOHN, Assemblywoman

REPORTED BY: JANET TADDEO, Official Court Reporter

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CONGRESSWOMAN SLAUGHTER: Good  
afternoon. Can you hear me all right?  
Hello. Is that better? I'm not sure this  
is working. Can you hear me?

THE AUDIENCE: Yes.

CONGRESSWOMAN SLAUGHTER: Good  
afternoon. My name is Louise Slaughter.  
I have the honor of being congresswoman  
for this district. I'm joined today by my  
good friend, Richard Dollinger, from the  
New York State Senate who was -- and I  
believe Assemblywoman Susan John will be  
joining us later. We are very happy to  
have all of you here today.

Before we start, I want to ask you  
if anyone here needs an interpreter, we  
have someone to do signing, but if we  
don't need her, we will not keep her here  
for a couple hours. Is there anybody who  
needs it? In that case, then we will  
thank you very much and thank you. We  
appreciate that.

Also, before you speak, we want to  
make sure that you give your name and your

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1  
2 address for the stenographer, name and  
3 address. Speak very clearly when you  
4 speak. You will come here to this podium  
5 to speak. Spell your name if it's  
6 difficult and I know it isn't, but  
7 nonetheless we want to make certain to say  
8 to you again this is a record that is  
9 being compiled to take to Washington which  
10 will be shared with the SEC, the Security  
11 and Exchange Commission, and at the  
12 appropriate committees of the House of  
13 Representatives.

14 I really appreciate you taking time  
15 to come here today and I know that  
16 thousands of you, more than in this room,  
17 have been affected by Global's bankruptcy.  
18 I would like to quote from an article that  
19 I received that was written by one of the  
20 former employees. It says, "Many former  
21 employees have been economically  
22 devastated as a result of corporate greed  
23 and the mismanagement of Global Crossing.  
24 People have spent their life savings and  
25 have had to cash in their deflated (since

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1  
2 the stock market plummeted) retirement  
3 401(k) plans just to survive these last  
4 few months after Global Crossing abruptly  
5 ceased their severance payments. Some  
6 former employees are now forced to file  
7 bankruptcy themselves while others might  
8 lose their homes, had to drastically  
9 change their lifestyles and many are  
10 barely surviving."

11 We have heard from you and we know  
12 your pain and we have talked on daily to  
13 people here, all day long, both here and  
14 in my Washington office of people who are  
15 deeply in pain and we have not begun to  
16 estimate the economic devastation to this  
17 community of what has happened with Global  
18 Crossing.

19 In addition to that, I personally  
20 am pained and concerned because I'm afraid  
21 that a lot of wonderful people and  
22 extraordinary talent may be forced to  
23 leave this community to find work  
24 elsewhere and the loss of this pool of  
25 talent and skilled workers will be a

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1  
2 double blow to Rochester and to its  
3 economy. Now, Rochester Tel, I remember  
4 fondly all those years chugging along just  
5 nicely with people going up the poles and  
6 fixing the lines. No matter what the  
7 weather was, we always knew that Rochester  
8 Tel would take care of us with  
9 extraordinary service and it was good and  
10 stable a place to work and I must say I  
11 can't stop thinking about my friend, Bob  
12 Flavin, and how he would be feeling if he  
13 were here today and I am glad Carolyn is  
14 here.

15 Now, the employees didn't break  
16 their promise to help the company grow and  
17 to provide quality services, but  
18 unfortunately Global recognizes the phone  
19 company's worth due to the hard work of  
20 its people, employees, and the question  
21 that comes to my mind is how in 1999  
22 Global Crossing, with 241 employees,  
23 purchased Frontier which had 13,000  
24 employees? It seems that the new economy  
25 with an emphasis on intellectual capital,

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1  
2 allowed Global Crossing and Enron and  
3 other companies with an inflated stock  
4 value to purchase almost anything it  
5 wanted.

6 After meeting last month with  
7 current and former Global Crossing  
8 employees, I asked for Congressional  
9 hearings on Enron to be broadened to  
10 include investigating into the Global  
11 Crossing's bankruptcy. There appeared to  
12 be striking parallels between the case of  
13 Enron and Global Crossing and including  
14 and most importantly to a lack of auditor  
15 independence, misleading accounting  
16 methods and a question of accessibility of  
17 employees' 401(k) accounts before the  
18 bankruptcy filing account. And unlike the  
19 small shareholders and company's workers,  
20 current and former top executives walked  
21 away the winners.

22 Enron's bankruptcy now just finally  
23 inspires Congress to ask the tough  
24 question on how this occurred; where did  
25 the system break down and what allowed

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1  
2 this to happen. In my view, it has all  
3 been deregulation run amok. Now the  
4 purpose today is to raise awareness in  
5 Congress, collect the information, as I  
6 said, that I can deliver directly to them  
7 and the testimony you provide us today,  
8 although let me assure that no one is  
9 under oath, will be taken down for the  
10 record by a court reporter and given to  
11 the governmental bodies with jurisdiction  
12 in this case, including the three  
13 Congressional committees, Department of  
14 Labor and the SEC. Your testimony will  
15 help Congress to look at corporate America  
16 and what these types of bankruptcies are  
17 doing and understand that they can neither  
18 be sustained nor tolerated.

19 Current law must change to better  
20 protect workers and investors. As a first  
21 step, I have endorsed legislation which  
22 would ensure that all employees enrolled  
23 in 401(k) plans have equal flexibility to  
24 trade their company stock as the company  
25 executives do. This legislation would

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1  
2 also require that workers and shareholders  
3 have accurate information about the  
4 company's financial condition. Another  
5 bill that I would support would further  
6 insure that employees have total control  
7 over their 401(k) investments.

8 One local CWA member told my staff  
9 when he was in Bermuda on vacation, just  
10 out of curiosity, he stopped by to see  
11 Global Crossing's corporate headquarters.  
12 He expected palatial offices, but not the  
13 hole in the wall that he found. Now,  
14 Global Crossing is not the first and not  
15 the only company to try to shirk its tax  
16 responsibilities. And we can look and we  
17 are looking at that also very closely in  
18 Congress, and yet the more companies that  
19 rush to use these tax-havens to get out of  
20 paying their fair share means that the  
21 rest of us are picking up the slack and we  
22 pick up the tab and bear the brunt of the  
23 tax burden. In an effort to stop this  
24 trend, I have just co-sponsored new  
25 legislation that would prevent

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1  
2 corporations from avoiding the United  
3 States income tax by re-incorporating in a  
4 foreign country.

5 We now, we taxpayers, are paying a  
6 billion dollars a day for the action in  
7 Afghanistan and everybody needs to pay  
8 their share because all of you benefit  
9 from freedom.

10 Now across the board, investors are  
11 skittish about relying on auditors'  
12 reports, and good reason, and also  
13 analysts' recommendations, which I think  
14 are also getting looked into. As a way to  
15 restore the independence of auditors, I  
16 have co-sponsored comprehensive  
17 legislation that would enhance the  
18 oversight of the of accounting industry.  
19 Accounting firms would no longer be  
20 allowed to offer consulting and auditing  
21 service to the same client. I look  
22 forward to hearing from you on your views  
23 and experiences and suggestions on what  
24 further action we could take on the  
25 accounting practices.

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1  
2 Let me be clear that the smaller  
3 accounting firms are in no way involved in  
4 this. This is the big five which used to  
5 be the big seven which will probably be  
6 the big three. We are not really not  
7 sure.

8 Now, I want to say succinctly and  
9 from the bottom of my heart that I want  
10 Global Crossing to succeed and I hope that  
11 the reorganization effort will be so  
12 successful that this company can retain  
13 the remaining Global Crossing jobs. I'm  
14 pleased to have Global Crossing's  
15 representative here today and thank you  
16 for coming.

17 Now, as we begin, I want to ask  
18 that everybody try to limit their comments  
19 to five minutes. Not everybody try to say  
20 the same thing. We want to give everybody  
21 an opportunity. When you speak, as I  
22 said, again, be sure to state your name  
23 for the record. I have a staff person  
24 over here, Sally Schaeffer, who will also  
25 take your name and address and I hope

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1  
2 phone number in case we need to get a hold  
3 of you later. So we will begin. We have  
4 a few people we are going to ask to start  
5 off to speak and then it's open to  
6 everybody.

7 First I would like to hear from our  
8 State Representative, Richard Dollinger,  
9 Senator, and then we are happy to welcome  
10 Susan John from New York State Assembly.

11 Richard.

12 SENATOR DOLLINGER: Thank you very  
13 much. I'm going to be very brief. I am  
14 here today because I think that there are  
15 State issues that are involved in Global  
16 Crossing. Whether it's unemployment  
17 insurance or the impact of Global  
18 Crossing's bankruptcy on the New York  
19 State pension system or quite frankly,  
20 whether we need to take initiatives at the  
21 State level with respect to disclosures  
22 made to shareholders' potential insider  
23 trading by executives, whatever it may be,  
24 I believe that there is a role to be  
25 played at the State level as well and I

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1  
2 intend to go back to Albany and take what  
3 I have here today with me.

4 I have one other small message.  
5 This community should be gratified that  
6 Louise Slaughter is its Congresswoman.  
7 She has proven that she is a fighter for  
8 people, I think, across the board in this  
9 community and from my point of view, this  
10 appearance here today and the taking of  
11 this testimony to Washington is further  
12 evidence, Louise, that you are doing the  
13 job we sent you to Washington to do and I  
14 personally want to thank you for all of  
15 your work in making this hearing happen  
16 today. I know that the information  
17 gathered today will be used by you to make  
18 sure that this never happens again.

19 (Whereupon the audience clapped.)

20 ASSEMBLYWOMAN JOHN: Good  
21 afternoon. Like all of you, and Senator  
22 Dollinger, once again, I'm reminded how  
23 delighted I am that Louise Slaughter is my  
24 representative in the United States  
25 Congress. We are very lucky to have her

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1  
2 there and I applaud her initiative in  
3 organizing this today because like Rick,  
4 I've been troubled by the phone calls, the  
5 letters, the e-mails that I have received  
6 from former employees and current  
7 employees about the circumstances they  
8 find themselves in and we need to make  
9 sure, of course, that this never happens  
10 again, but we also need to make sure what  
11 we can do to help any of you who are  
12 embattled at the moment. So thank you for  
13 coming here today and I look forward to  
14 hearing your comments and working together  
15 to see what we can do on behalf of all of  
16 the employees affected by this in our  
17 community. Thank you.

18 CONGRESSWOMAN SLAUGHTER: Our first  
19 speaker will be Bob Flavin, successor, who  
20 has done a wonderful job, Linda McGrath,  
21 President of CWA Local 1170. Linda.

22 MS. McGRATH: Thank you. Thank you  
23 all for attending this morning. I am not  
24 going to speak this morning. I want just  
25 -- just going to take the opportunity for

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1  
2 ... thanking Louise for being here, for doing  
3 this for this community. I'm going to  
4 defer my speaking time to you, the  
5 victims, because you are the ones that  
6 were hurt and need to be heard today.  
7 Thank you.

8 CONGRESSWOMAN SLAUGHTER: Let's  
9 begin with Michael Nighan.

10 MR. NIGHAN: Name and address,  
11 Michael Nighan, N-i-g-h-a-n, 107 Crossman  
12 Terrace, Rochester.

13 Representative Slaughter, Miss  
14 John, Mr. Dollinger, as a member of the  
15 Steering Committee for a nationwide group  
16 of former Global Crossing employees, I  
17 thank you on their behalf for this  
18 opportunity to enlist your aid and to  
19 suggest a course of action to determine  
20 what went wrong at Global Crossing.

21 Although Global Crossing is a  
22 multi-national corporation, the heart and  
23 soul of the company lies here in the  
24 Rochester area with the employees of the  
25 former Frontier Corporation and it's in

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1  
2 Rochester that the demise of Global  
3 Crossing has been most keenly felt in the  
4 form of the loss of hundreds of jobs and  
5 millions of dollars in losses to  
6 retirement funds and stock portfolios.

7 Our committee was formed by --  
8 because the interests of ex-Global  
9 Crossing employees could only be protected  
10 by presenting a unified front. While we  
11 obviously share others' concerns about the  
12 plunge in the Global Crossing stock price,  
13 there are numerous shareholder suits  
14 addressing this issue. But as employees,  
15 we soon realized that we must fend for  
16 ourselves when it comes to our hijacked  
17 severance benefits.

18 As background, when Global Crossing  
19 filed for Chapter 11 protection on January  
20 28th, they had the option of requesting  
21 authorization from the Bankruptcy Court to  
22 continue the severance payments being made  
23 at that time to previously terminated  
24 employees. However, in a premeditated act  
25 that, while not illegal was clearly

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1 cold-blooded, Global Crossing instead  
2 elected to renege on its promises and  
3 unceremoniously kicked its former  
4 employees into the street and onto the  
5 unemployment insurance rolls and into the  
6 street. And in a further display of  
7 extreme corporate callousness which bent  
8 existing regulations, if it did not  
9 shatter them altogether, our benefits were  
10 discontinued with no prior notification  
11 whatsoever. Indeed, ex-employees were not  
12 informed that their severance payments and  
13 medical benefits had been terminated until  
14 they received a form letter from the Human  
15 Resources Department several days after  
16 their benefits had been stopped. Despite  
17 the fact that it was the hard work of the  
18 employees in the Rochester area and  
19 elsewhere that permitted these executives  
20 to pursue their lives of largesse and  
21 excess, the message from the Global  
22 Crossing boardroom was loud and clear --  
23 greed is good, ex-employees are good  
24 riddance.  
25

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1  
2                   Make no mistake about it, Global  
3 Crossing is dead. It was not killed by  
4 unexpected changes in the national or  
5 world economy, nor was it the victim of  
6 competitive marketplace. Its wounds are  
7 entirely self-inflicted. It died from an  
8 overdose of executive excess. And with  
9 five CEOs in just two years it died from  
10 an excess of executives. We ex-employees  
11 are not trying to rob the corpse, we are  
12 simply trying to obtain that which we were  
13 promised. For as former employees of  
14 Global Crossing, we have been doubly  
15 damned by the company's suicide. In just  
16 a few short months we have gone from being  
17 touted as company assets to being treated  
18 as a liability. From being Global  
19 Crossing shareholders to being Global  
20 Crossing bag-holders.

21                   Representative Slaughter, we have  
22 asked two things of you. First, to assist  
23 the Global Crossing ex-employees group to  
24 gain official recognition before the  
25 Bankruptcy Court so that we can make

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1  
2 directly -- directly make the case for the  
3 reinstatement of our lost benefits. And  
4 we are -- have been most appreciative that  
5 you have already done this for us.  
6 Secondly, we ask that you use your  
7 position in Washington to persuade your  
8 fellow representatives and chairs of the  
9 appropriate Congressional committees to  
10 initiate investigations into the conduct  
11 of Global Crossing and its executives.

12 While a review of Global Crossing's  
13 operations by the SEC and other regulatory  
14 bodies is important, it's not enough. As  
15 ex-employees and shareholders we are  
16 entitled to know what happened at Global  
17 Crossing. Were there illegal acts? Did  
18 the officers and Board fulfill their  
19 fiduciary responsibilities? We simply do  
20 not know.

21 All we surely do know is that the  
22 one of the largest telecommunication  
23 companies in the United States crashed and  
24 burned in under two years. But the fact  
25 that we don't know why or who is

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1  
2 responsible or whether the company was  
3 playing fast and loose with the rules is  
4 exactly why Congressional investigations  
5 are needed.

6 While we can only speculate on the  
7 psychological makeup of a corporate  
8 chairman that finds it necessary to spend  
9 \$92 million on a home and just two years  
10 later blithely announces that he's  
11 spending an additional \$15 million to  
12 freshen up his property while hundreds of  
13 ex-employees whose severance benefits he  
14 has terminated are scrambling just to meet  
15 their monthly mortgage payments, we can  
16 say for certain that an individual who can  
17 serenely act in such a manner will not be  
18 influenced or impressed by anything less  
19 than a Congressional investigation into  
20 his stewardship of the company.

21 No Global Crossing executive has  
22 yet taken the witness stand and no Global  
23 Crossing executive has taken the Fifth  
24 yet. While the extent of any illegal  
25 activity at Global Crossing is unknown, we

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1  
2 do believe that a Congressional  
3 investigation will identify, at the very  
4 least, a wide variety of corporate abuses  
5 against employees and shareholders which  
6 can then be corrected and prevented in the  
7 future by changes to existing federal  
8 statutes and regulations. We realize that  
9 Congress cannot legislate morality. Nor  
10 can it legislate common decency or  
11 compassion. But it can legislate  
12 fairness. And it can put corporate  
13 executives, not just at Global Crossing or  
14 Enron but at Kodak and Xerox and Bausch &  
15 Lomb on notice that their actions and the  
16 way they treat their employees and  
17 shareholders are now fair game for public  
18 and legislative scrutiny and that the  
19 "greed is good" mentality that may have  
20 been acceptable in the past will no longer  
21 be tolerated in the future.

22 Thank you all for your interests in  
23 our concerns. Thank you.

24 CONGRESSWOMAN SLAUGHTER: I will  
25 now like to ask Irene DiNolfo please to

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1  
2 come forward.

3 MS. DI NOLFO: Irene DiNolfo,  
4 D-i-N-o-l-f-o, 620 Beach Avenue,  
5 Rochester, New York.

6 I started with Rochester Telephone  
7 14 years ago. My last position with  
8 Global Crossing was in Marketing  
9 Communications. I am currently a member  
10 of the Steering Committee that is focusing  
11 on getting promised severance payments to  
12 employees.

13 Why is this so important? The  
14 severance policy is a part of the Global  
15 Crossing human resource portfolio of  
16 benefits I received as well as all other  
17 previous employees, a document from Global  
18 Crossing that stated the severance  
19 payments each of us was going to receive  
20 based on the company's policies. That  
21 information was posted on the Internet and  
22 it was printed in the brochures. Global  
23 Crossing committed to pay a severance  
24 benefit to every employee.

25 The senior executives, not the  
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1 employees, chose to over-extend the  
2 company resulting in a Chapter 11 filing.  
3 Each employee fulfilled their employment  
4 commitment. The company backed out of  
5 their commitment. They did not keep their  
6 word, nor their written policy. As  
7 reported, many senior executives did  
8 receive lump sum payments just before the  
9 filing. Employees who left the company  
10 yesterday will receive lump sum payments  
11 for their severance. We did not. We were  
12 stripped of our severance. Global  
13 Crossing senior executives need to be made  
14 accountable for their lack of strategic  
15 planning as well as their lack of ethical  
16 business practices. Reneging on severance  
17 payments is ethically wrong, therefore,  
18 the Steering Committee, which I am a  
19 member of, will continue to be focused on  
20 retrieving promised severance benefits to  
21 each and every one of their former  
22 employees. Thank you.

23 CONGRESSWOMAN SLAUGHTER: Robert

24 Conico.

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1  
2 MR. CONICO: Bob Conico,  
3 C-o-n-i-c-o, 199 T-i-o-g-a Drive,  
4 Rochester.

5 My name is Bob Conico. I worked  
6 for Frontier Telephone. I've worked there  
7 nine years. I worked for Global Crossing  
8 from the beginning until last July when it  
9 sold Frontier and in that time I invested  
10 in Global Crossing through my 401(k). In  
11 fact, I worked extra. I worked overtime  
12 to put more money away into my retirement  
13 so I could retire early and live better  
14 and just have a better life. Well, I  
15 understand companies don't live forever  
16 and they don't always work out and  
17 sometimes they fail, but apparently the  
18 executives of Global Crossing realized  
19 that and bailed out and didn't bother to  
20 let us know that. So we got left holding  
21 the bag and we saw our retirements fall  
22 apart. We saw our future change. Now, I  
23 lost a fair amount of money, but I'm  
24 fairly young. I'll have opportunity to  
25 recoup that money, but I worked with

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1  
2 people who have lost \$200,000, \$400,000,  
3 some close to \$1 million out of their  
4 retirement. A lot of them were ready to  
5 go. They were going to retire and they  
6 have seen their plans go away. They are  
7 going to be working for the next ten years  
8 or more for Social Security or who knows  
9 when.

10 Now, while this is happening, the  
11 executives at Global Crossing are giving  
12 themselves bonuses. Gary Winnick is in  
13 one of the most expensive houses in the  
14 US. I hear he took \$750 million out of  
15 the company. Well, I think that's wrong.  
16 I think he failed us. I think -- I think  
17 he brought that company down. He knew  
18 when the end was coming. He didn't let  
19 any of us know and I think Gary Winnick  
20 belongs in jail for that.

21 (Whereupon the audience clapped.)

22 MR. CONICO: You can't do that to  
23 people. I don't know how he sleeps at  
24 night. I would like to know. Well,  
25 that's wrong and I think the rules that

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1  
2 allowed him to do that need to change.  
3 They must be held accountable for their  
4 actions and I would hope that out of this  
5 mess, I don't know if I will receive any  
6 recompensment or whether anybody else here  
7 will, but I would like to see from now on  
8 change so that this doesn't happen to  
9 anybody else again. Thank you.

10 CONGRESSWOMAN SLAUGHTER: Bill  
11 Goodness.

12 MR. GOODNESS: Bill Goodness,  
13 G-o-o-d-n-e-s-s, 1501 Chigwell Lane South,  
14 Webster.

15 I'm also a member of the Steering  
16 Committee that's representing Global  
17 Crossing employees and I was asked to come  
18 here today to speak about the impact and  
19 that seems to be the big question  
20 everybody wants to know, how is this --  
21 has this affected you; how has this  
22 affected Global Crossing employees; what  
23 really has been the impact? And that's  
24 what I'll try to talk slowly about.

25 The immediate stripping away of  
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1  
2           severance and health benefits without  
3           warning from hundreds of hard-working  
4           ex-Global Crossing employees now and will  
5           continue to have a devastating effect on  
6           hundreds of lives in communities all  
7           across America for where Global Crossing  
8           did their business and let's think about  
9           that for a second, for those of you who  
10          have -- of you that are here today to  
11          gather information to figure out exactly  
12          what it is you should say or do about this  
13          entire Global Crossing mess, think about  
14          how it would impact your life if later  
15          today you found out you no longer have any  
16          income and the health benefits for  
17          yourself and your family are ending in  
18          three days and a significant portion of  
19          your retirement savings has simply  
20          vaporized.

21                 Here in Rochester we have people  
22                 that have put 10, 15, 20, even 30 years  
23                 into building their futures and their  
24                 company. A lot of people have had their  
25                 future plans put in serious jeopardy, if

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1  
2 not completely wiped out, but the  
3 immediate impact from the sudden  
4 cancellation of our severance packages  
5 that were part of our benefits portfolio  
6 and promised in writing has and can be  
7 devastating.

8           There is a loss of productivity and  
9 vitality to our community as many workers  
10 will have to look and ultimately move  
11 elsewhere to secure employment. There are  
12 single parents that suddenly have to work  
13 even harder to make ends meet to support  
14 their children. There are families that  
15 have been forced to put their homes up for  
16 sale and there are many that are forced to  
17 choose between paying their bills and  
18 purchasing health insurance.

19           This is today's reality for  
20 hundreds of ex-Global Crossing employees  
21 that left the company prior to January  
22 28th. The ambush style seizing of our  
23 severance was a calculated and  
24 cold-hearted move on the senior executive  
25 management of Global Crossing. At the

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1  
2 same that many of these executives were  
3 having their life-styles and futures  
4 enhanced, we were having ours robbed.

5 As both Michael and Irene have  
6 said, the focus of our committee is the  
7 determined pursuit to recover the  
8 severance money that was owed, promised  
9 and that -- and then callously taken away.  
10 We all need to support -- the support of  
11 our elected representatives as well as the  
12 media to get our message heard loud and  
13 clear to bring a swift and positive  
14 resolution to this issue. Thank you.

15 CONGRESSWOMAN SLAUGHTER: Thank  
16 you, Bill. I can only sense your anger  
17 and devastation. I mean, I'm pleased that  
18 you put it in those words because people  
19 really need to hear what it is like to  
20 suddenly in the afternoon here your whole  
21 future has changed for the worse.

22 Solton Dukes (phonetic). He's not  
23 here. All right. Janet Mahoney.

24 MS. MAHONEY: I'm not scheduled to  
25 speak.

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1  
2 CONGRESSWOMAN SLAUGHTER: Janet  
3 Mahoney's not speaking at this point.  
4 Adrienne Ragland.

5 MS. RAGLAND: Adrienne Ragland, 25  
6 Delacorte Circle, Rochester.

7 Good afternoon. Thank you very  
8 much for coming here today. I've thought  
9 long and hard about what I was going to  
10 say and I have been thinking about this  
11 for two weeks. I'll start out by telling  
12 you that I went into the Frontier  
13 Corporation as the Carrier Account Manager  
14 several years ago, young and ambitious. I  
15 knew that there was a lot of opportunity.  
16 There was need to be there. I believed in  
17 the company, the company bought by Global  
18 Crossing, continued to believe in the  
19 company; promoted twice within two and a  
20 half years. I think I did a good job. I  
21 think I worked hard. I want to bring you  
22 up to this morning when I finally sat down  
23 and I reread what I intended to say here  
24 today and I will let these people know I'm  
25 a registered Democrat in spite of what I'm

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going to say. Sorry, Rob.

Friday, March 8th, President Bush stated, "This country must hold corporate CEOs of publicly held companies to the highest of high of standards." He said this in a speech given at America II Electronics, in St. Petersburg, Florida. And in a round table discussion with the press-post speech, he said, "I'm going to talk about opportunities for this country to usher in a period of responsibility." He went on to say, "Part of a responsible society is there's to be a responsible attitude for corporate management toward employees and shareholders and disclosure if you're a publicly traded company." He then went on to compliment the founder of America II for having a dream, for working hard to achieve it, for being wise enough to understand that he's only as successful as the good folks who work for him.

In light of the recession, and the events of September 11th, there wasn't one layoff at America II. This, in spite of

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1 sales at America II dropping by 40  
2 percent, yet the founder of America II  
3 understood his responsibility as a good  
4 citizen and no one got laid off. In the  
5 midst of an unbelievable act of evil on  
6 America that affected our economy, Mr.  
7 Bush said that he doesn't care what the  
8 number crunchers say, it did affect our  
9 economy and people's lives and I have to  
10 agree the founder of America II understood  
11 the importance of the American work force  
12 and kept people employed. I can't say  
13 that the founder, Board of Directors,  
14 officers, CEO or trustees of Global  
15 Crossing understood their responsibility.  
16

17 In March of last year the GX stock  
18 began to slid, August 2001 Global Crossing  
19 reduced its earnings forecast, reorganized  
20 and the layoffs began. In this community  
21 on October 4th, Global Crossing announced  
22 revenue and cash flow will fall further,  
23 as well as John Legere was announced the  
24 fifth CEO since Global Crossing's founding  
25 in 1997.

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1  
2 - October 5th, 2001, Standard and  
3 Poor's Corp. removed Global Crossing from  
4 the S&P 500 stock index. Bond rating  
5 agencies put Global Crossing's already  
6 junk rated debt on watch for further  
7 downgrades.

8 November 16, 2001, workers are laid  
9 off in Rochester and I was one of them.

10 December 2001 through January 2002,  
11 a blackout period was in effect for the  
12 401(k)-Putnam to Fidelity and Reflects.  
13 The changed from Putnam to Fidelity.

14 January 25th, current employees  
15 receive pay. Word on the street is Global  
16 Crossing is going to file Chapter 11.

17 January 28th -- January 25th, I  
18 called Global Crossing Employee Service  
19 Center in Bushnell's Basin, as well as  
20 Fidelity to roll over my 401(k) into a  
21 personal account. Per Fidelity, they had  
22 never received a severance date from  
23 Global Crossing. Per Global Crossing, it  
24 was Fidelity's fault. They couldn't  
25 accept the electronic feed. Per Global

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1  
2 Crossing, my severance date should now be  
3 at Fidelity by Tuesday, January 29th. I  
4 called Global Crossing Employee Service  
5 Center in Bushnell's Basin on Monday,  
6 January 28th, at 2:03 p.m., and I spoke  
7 with John. I asked in light of the fact  
8 that Global Crossing has broken the  
9 severance agreement terms, does this mean  
10 that the non-disclosure, non-compete terms  
11 of the agreement are off? He hesitated,  
12 then he said, "That is correct."

13 And that's why I'm here today. I'm  
14 here to request that you -- have you --  
15 that you inquire about the emergency board  
16 meeting that took place between September  
17 25th and September 30th of 2001, that was  
18 the end of the third quarter of 2001. I'm  
19 here to request that you ask us, the  
20 severed employees of Global Crossing, the  
21 names of the people who fed to us the info  
22 that Global Crossing would file Chapter 11  
23 on Friday, the 25th of January. That's  
24 prior January -- to January 28th. I'm  
25 here to request that you take a hard look

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1  
2 at the Exodus Deal.

3 CONGRESSWOMAN SLAUGHTER: The exit  
4 what?

5 MS. RAGLAND: The Exodus Deal. How  
6 it was contracted and sold; how it was  
7 ordered; how it was provisioned; how it  
8 was installed and finally, did it bill?  
9 Question that; question us, the former  
10 employees.

11 Finally, I request that you  
12 understand the severance owed was not  
13 Monopoly money to anybody in this room.  
14 It was a mortgage payment. It was  
15 electricity, water, gas, food. For me,  
16 what is still owed after taxes is so small  
17 it's three car payments; it's eight  
18 student loan payments, but it was real  
19 money to me.

20 In May of 2001, Gary Winnick cashed  
21 out a reported 9,976,781 shares for a  
22 profit of approximately \$123 million. He  
23 had the right and it was legal. But was  
24 he a good corporate citizen? No. Just my  
25 humble opinion, nothing more, nothing

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1  
2 less, but I have the right to have an  
3 opinion and express it just as he had the  
4 right to sell.

5 I'm asking that you call him to the  
6 floor; call him to the floor of the House;  
7 call Tom Casey, the former CEO, call John  
8 Legere, the current CEO, call Virginia  
9 Bruemmer, who headed up Global billing;  
10 call Joe Clayton; call them to the floor.

11 I want to also go on record saying  
12 after being the Carrier Account Manager, I  
13 moved into the Carrier Process Team and  
14 from there to the Global Crossing  
15 Management Team. The products I managed  
16 were Global private lines, domestic  
17 colocation and that also includes the IRU.  
18 So please do call me to the floor if  
19 necessary.

20 CONGRESSWOMAN SLAUGHTER: You may  
21 be sure we will call you, Adrienne. Make  
22 sure Sally Schaeffer has your phone number  
23 where we can get a hold of you.

24 Chris.

25 MR. WETTACH: Chris Wettach,  
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1  
2 W-e-t-t-a-c-h.

3 Congresswoman Slaughter, thank you  
4 very much for hearing us talk this  
5 afternoon. With Sally, I have left you  
6 the following documents: The change of  
7 control policy, severance plan that Global  
8 Crossing gave to all of us that outlines  
9 one month of salary for every year of  
10 service.

11 At the time of my departure from  
12 Global Crossing, I had 13 years of  
13 credited service and was paid three or  
14 four months of that severance. My concern  
15 is two-fold: The companies that are  
16 planning on making a large investment  
17 stake in Global Crossing, Hutchison  
18 Whampoa and Singapore Limited are known to  
19 have ties to the communist Chinese  
20 government, FGCS, carrying sensitive US  
21 Department of Defense data traffic. This  
22 could be a cause of concern of national  
23 security.

24 I'm a lifelong resident of Upstate  
25 New York and have seen thousands of jobs

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1  
2 leave this market through the years.  
3 Since August 8th when I left Global  
4 Crossing without cause, it took five  
5 months for me to find a job and if it  
6 weren't for my wife's parents I would have  
7 left New York after these five futile  
8 months for self-searching for comparable  
9 employment. Thank you. It's  
10 W-a-t-t-a-c-h, 28 Watchman Court,  
11 Rochester, New York.

12 CONGRESSWOMAN SLAUGHTER: Thank  
13 you, Chris. Since you brought up those  
14 contracts, Department of Defense I know is  
15 looking very closely at that. I think  
16 there will be a problem with the Asian  
17 connection.

18 That is the last of the people who  
19 have asked to speak, particularly who have  
20 some point of view we wanted to hear. Now  
21 we want to hear from all of the rest of  
22 you, particularly we want to hear from any  
23 of you who have information on the 401(k)  
24 on the contracts which are important. I'm  
25 sure you know that the British Parliament

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1  
2 has debated on whether or not they need to  
3 break their contract with Global. If  
4 anybody has -- something that sort of eats  
5 at me, something that I would like to know  
6 is how would you sell a \$22 billion asset  
7 for \$740 million? I don't purport to be a  
8 business person and I don't know, but that  
9 seems to me that is more than a fire sale.  
10 I do know that Global has some assets that  
11 are very important and what they have done  
12 is import in the communications fields.

13 So let me open it up now. Who else  
14 would like to speak? Just be sure to come  
15 up, try to make it as brief as you can.  
16 Please try not to be repetitious. We want  
17 to hear from as many people as many points  
18 of view. Please come. Have mercy on the  
19 stenographer.

20 MR. ARCHER: My name is Dave  
21 Archer. I was a former Global employee,  
22 left on November 16th and I, too, along  
23 with everyone else, am less my severance,  
24 all within two days and Dave Carey,  
25 representative of Global Crossing, Dave,

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1  
2 you should know that that lovely house  
3 that you commented on is now up for sale.  
4 So that is how it has impacted me as well  
5 as I'm going to have to leave the Western  
6 New York area.

7 Two additional pieces of  
8 information that relate to our handling of  
9 our 401(k): In most financial disclosures  
10 that the company makes they make a  
11 statement -- I don't know what it is  
12 called -- but it says something like any  
13 forward looking statements are not  
14 necessarily true. I don't know the  
15 legalese of what that is, however, for  
16 those of you sitting here who listened to  
17 the employees, the speeches by Tom Casey  
18 in the middle of the summer and also  
19 listened to John Legere, I wish the  
20 committee would get tapes of those  
21 speeches because Tom Casey said, and I  
22 hope you all remember, I wrote it down,  
23 "Wall Street is wrong."

24 THE AUDIENCE: Yes.

25 MR. ARCHER: "Wall Street is  
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1  
2 wrong," and he is telling that to the  
3 employees. In addition, Legere, in his  
4 initial speech right here in Rochester,  
5 said "Wall Street is wrong." Now he is  
6 making a statement to his employees from  
7 that perspective and of course locking up  
8 your 401(k) at that point seems a little  
9 bit odd to me; however, I think it's an  
10 important statement what they are  
11 communicating to the employees so that  
12 they can make a rational decision about  
13 their 401(k) deserves some question.  
14 Thank you.

15 MR. FUSCO: My name is Matt Fusco,  
16 F-u-s-c-o, 1600 Crossroads Building in  
17 Rochester. I'm not a Global Crossing  
18 employee, I'm a local attorney. Yesterday  
19 we filed a class action suit on behalf of  
20 everyone who is a participant in the  
21 change of control severance plan. Now,  
22 some of you had different severances and  
23 there is not the same plan and there's not  
24 the same obligations, but with regard to  
25 those of you who are in the change of

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1 control severance plan, you were working  
2 for Frontier in March of 1999 when  
3 Frontier and Global entered into a  
4 memorandum of agreement for merger and you  
5 knew your company was being taken over by  
6 some strange outfit out of Bermuda and  
7 this is March of 1999. If you're in  
8 telecommunications or if you're an IT  
9 person, you could have gone out and gotten  
10 yourself another job. There were plenty  
11 of jobs and Frontier said to you don't  
12 leave, please don't leave. Stay here.  
13 Stay with us and Global said to you don't  
14 leave. We need you to come with us when  
15 we take over and they both promised you if  
16 you stay, if you don't leave within -- and  
17 if then you get laid off within two years  
18 of that takeover, we are going to give you  
19 a severance and we are going to give you  
20 health insurance and so you agreed, you  
21 stayed, you worked hard, you got the ax,  
22 most of you in August of this past year,  
23 some in September. Okay, and guess what,  
24 it was a whole different job market. You  
25

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1  
2 couldn't go out and sell yourself anywhere  
3 and you were glad to have that severance  
4 and those months of health insurance to  
5 rely on and they pulled it right out from  
6 under you and we are not going to let that  
7 happen.

8 We have brought suit to ask the  
9 Court to hold those individual  
10 fiduciaries, these people who ran the  
11 plan, to reimburse the plan, so that they  
12 can make good your benefits. This is  
13 outside the Bankruptcy Court. We have  
14 named specific individuals. Okay, Joseph  
15 Perrone, John Comparene, Linda DeBalso.  
16 These individuals are fiduciaries on your  
17 plan. The law says they must act solely  
18 in your interest and these three people  
19 plotted and schemed not to pay you your  
20 benefits. They did it on purpose  
21 throughout the fall when they knew the  
22 company was going over despite the fact  
23 that they had a fiduciary obligation to  
24 you, they planned for you not to get paid.  
25 Okay, and that's -- and that's illegal and

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1  
2 we are going to go after them for it.

3 We also have named as Defendants  
4 those three members of the Board of  
5 Directors including former Secretary of  
6 Defense William Cohen and I didn't realize  
7 that was who it was when I wrote his name  
8 down. These people paid to be on Global's  
9 Board of Directors, outside directors,  
10 members of that Employee's Benefits  
11 Committee, have a fiduciary obligation to  
12 oversee that the plan is being  
13 administered in your interest. They know  
14 the company is going under and are not  
15 going to be able to meet these payments  
16 and they don't do a thing about it. They  
17 don't even tell you. They are liable for  
18 that because they are fiduciaries just as  
19 well. So we hope through the result of  
20 this lawsuit and hopefully insurance that  
21 these fiduciaries will have that we are  
22 going to be able to fund that plan so that  
23 all of those severance payments and all  
24 the health insurance premiums are paid.

25 And just so you might want to know,  
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1  
2 I'm also the attorney who filed the  
3 security fraud lawsuit. Legally if people  
4 have questions about that, I would be glad  
5 to ask -- answer them later. Thank you.

6 MS. COLLINS: My name is Cheryl  
7 Collins, C-h-e-r-y-l, Collins,  
8 C-o-l-l-i-n-s. My address is 32 Norhill  
9 Drive, Rochester.

10 First of all, this is a very  
11 difficult statement for me to make and  
12 there are two reasons actually for this.  
13 This is such a difficult statement. The  
14 first reason is that we all share, all of  
15 us in this room, share one concern and  
16 that's survival. Our issues are as basic  
17 as this: Will we be able to pay our  
18 mortgage, our car payments, health  
19 insurance, college tuition for our  
20 children. Do we have the time and the  
21 trust to rebuild our retirement accounts?  
22 In my case, well, will I find a job before  
23 unemployment and savings run out? We are  
24 requesting that those of you help us  
25 obtain justice for the American worker.

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1  
2 Global Crossing's bankruptcy filing in  
3 January created a chasm that threatens to  
4 swallow our financial security on one side  
5 of the skull stand corporate -- who  
6 extracted a huge profit on the other side  
7 and the workers and small investors who  
8 lost severance benefits and pension  
9 investments, many of us are standing on  
10 the brink of financial devastation. It's  
11 difficult to think of deeper divide than  
12 the similar situation of these two  
13 grounds.

14 Really, I think in my opinion, we  
15 need three types of assistance. The first  
16 is the media of assistance to stabilize  
17 our financial situation. Second is  
18 investigation into the circumstances  
19 surrounding the creation, operation and  
20 bankruptcy of Global Crossing. Third, our  
21 changes to public policy in the areas of  
22 bankruptcy law, 401(k) reform and health  
23 care benefits. The most immediate and  
24 urgent need right now for many of these  
25 people in this room is to expedite the

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1  
2 release of severance payments by the  
3 bankruptcy trustee. We believe that the  
4 employee representative to the creditors  
5 facility will facilitate our motion before  
6 the Bankruptcy Court. We generally  
7 appreciate Congresswoman Slaughter's  
8 prompt assistance in this matter.

9 It has come to our attention that  
10 the intervention of the Texas Attorney  
11 General into the Enron bankruptcy may have  
12 been a decisive factor in the decision to  
13 grant Enron employees initial recognition.  
14 For this reason, we are requesting the  
15 assistance of our State legislatures in  
16 obtaining -- I'm requesting in obtaining  
17 similar support from the Attorney General  
18 through New York State. I have talked  
19 with a lot of people, a lot of people. I  
20 have read a lot of mail and I'm going to  
21 try to relate some information from people  
22 who couldn't be here today either because  
23 they are not in the district or they had  
24 other plans or because they were afraid of  
25 the 800-pound gorilla that Global Crossing

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1  
2 is and believe me, I am, too.

3 Some of the areas that people felt  
4 would benefit from investigation include  
5 exclusion of severance payment from the  
6 final payroll run prior to bankruptcy.  
7 Global Crossing made the decision, we  
8 understand based on our sources, to run  
9 payroll off schedule and early prior to  
10 the bankruptcy. We were to be paid on the  
11 same schedule as the employee. So we  
12 should have been paid as part of that  
13 payroll run and we were not. So someone  
14 made the conscious decision to run  
15 payroll, but not to pass our severance at  
16 the same time.

17 Another issue which people believe  
18 deserves investigation is our removal from  
19 funds from checking accounts without the  
20 knowledge or permission of the account  
21 holder. Another area of investigation.

22 CONGRESSWOMAN SLAUGHTER: Would you  
23 say that again?

24 MS. COLLINS: Yes, ma'am. I have  
25 heard rumors of removal of funds from

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1  
2 checking accounts without the knowledge or  
3 permission of the account holder.

4 CONGRESSWOMAN SLAUGHTER: By whom?

5 MS. COLLINS: After the funds were  
6 deposited, they were removed. Another  
7 thing that I have heard is payment checks  
8 were issued and payments were stopped on  
9 those checks. Allegedly there has been a  
10 failure to pay expenses incurred by  
11 individuals on behalf of the company,  
12 meaning their American Express corporate  
13 accounts; lack of notification prior to  
14 termination of health care benefits which  
15 I believe many people here have spoken  
16 about; lump sum payments to executives,  
17 loan forgiveness for top executives.  
18 Another area that investigation would be  
19 beneficial and also as Adrienne mentioned,  
20 failure to provide timely notification of  
21 termination to the 401(k) administrators.

22 There were three specific areas  
23 where I felt that legislative leadership  
24 would be helpful. I heard yesterday  
25 actually that one of those has been taken

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care of. I believe the House did pass the extension of unemployment benefits.

CONGRESSWOMAN SLAUGHTER: Now signed this morning.

MS. COLLINS: Which is terrific and we would like to thank all of the legislatures for that.

(Whereupon the audience clapped.)

MS. COLLINS: You can't believe --

CONGRESSWOMAN SLAUGHTER: It should have been twenty-six.

MS. COLLINS: You can't believe what type of relief and peace of mind that provides us with.

A second area where we feel legislative leadership is necessary, we believe it's imperative that some method be found to provide employment workers with affordable health employment benefits. COBRA provides us with the right, but not the means to continuing health care coverage. If many of us were to provide health care coverage to ourselves and our family -- obviously we

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don't have that resource anymore -- there are people in this room who will go without health care coverage for that reason. I'm sorry. I'm sure.

A third area of legislation is there is currently a billing committee in the house, I understand, to litigate the ten-person tax penalty on 401(k) withdrawals during periods of unemployment and we would very much like -- I would very much like to see that acted on.

And now we come to the second reason why this is a difficult statement for me to make and I have to tell you that I admire Adrienne's courage and her powerful speech more than anyone because I cannot tell you how afraid I am to be up here right now and I cannot tell you how many people have told me that they have things they want to say or need to be said and they are really afraid. They are afraid that they are going to lose their severance benefits. They are afraid that they are going to get chased by an

1  
2 800-pound gorilla which is what is reputed  
3 to be a really bad disposition. So right  
4 now the second type of assistance that I'm  
5 requesting is an investigation in the  
6 circumstances surrounding management and  
7 bankruptcy of Global Crossing.

8 We need your help in understanding  
9 how a small group of executives can in  
10 under five years walk away with  
11 approximately \$1.3 billion dollars while  
12 leaving behind \$20 billion in debts. We  
13 need to know how the fortune of one  
14 individual can exceed \$750 million while  
15 pensions have been wiped out and workers  
16 face the possibility of foreclosure. It  
17 would be real easy to say that's just the  
18 way it is and shrug our shoulders and walk  
19 away because the problem we as workers  
20 face is the disparity in resources and  
21 power between us and the executives at  
22 Global Crossing. Please do not allow  
23 these executives to use this advantage to  
24 conceal the truth. The legislators in  
25 this room and in Albany, in Washington,

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1  
2 must represent our collective will to see  
3 the truth uncovered. Thank you very much.  
4 Thank you.

5 MR. STRATTON: My name is Stratton,  
6 Dennis Stratton, 2919 Atlantic Avenue,  
7 Penfield, New York. I've worked for  
8 Rochester Telephone for 44 years. I'm in  
9 the process of retiring at the end of this  
10 month and I'm very sorry to say that I  
11 worked for Global Crossing for two and a  
12 half years and I'm not proud of that at  
13 all and what it has done to some of my  
14 pensions, a lot of people I know and  
15 people maybe wanted to leave and what made  
16 me leave right now is what it is has done  
17 to their pensions and what their future  
18 might be.

19 It's really sad and, you know, it  
20 really is hard to talk about something  
21 like that and what it does to people. I  
22 mean it's sad that people, these people  
23 that have no severance at all, these are  
24 people you never knew because they were  
25 part of another part of the company, but I

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1  
2 mean at least I have -- I know I have a  
3 pension and I'm going to have this and I'm  
4 going to have that, but I lost \$100,000  
5 through all of this thing and there is a  
6 lot of people who have lost a hell of a  
7 lot more than that and it would have made  
8 my pension a little bit nicer for me in  
9 the future and my family and everything  
10 else, but it's really sad to see that  
11 people can just go ahead and do things  
12 like that and I'm certainly hopeful that  
13 something can be done to help some of you  
14 folks because it sure as hell doesn't look  
15 very good because of what is going on all  
16 over this country.

17 I'm a registered Democrat, but this  
18 goes well over party lines. It has  
19 nothing to do with party lines at all and  
20 I certainly hope that you're successful in  
21 getting something for these people. Thank  
22 you.

23 MR. GILBERT: My name is Lewis  
24 Gilbert, G-i-l-b-e-r-t, and my address is  
25 7026 Woodchuck Hill Road and that's in

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1  
2 Fayetteville and that's outside of  
3 Syracuse. I'm an individual investor who  
4 lost approximately half of my IRA account  
5 through an investment in Global Crossing  
6 common stock and I worked hard for that  
7 money and I resent greatly that it may end  
8 up being worth nothing.

9 My big concern here or one of my  
10 big concerns has to do with what is the  
11 duty of corporate officers and everyone  
12 talked about the dishonesty, the  
13 misleading statements, the corporate  
14 largesse, I believe is the word, by Mr.  
15 Winnick and others, but no one seems to be  
16 talking about, just what is the duty for  
17 corporate officers to fight for  
18 shareholders.

19 My understanding as a common  
20 shareholder is that I'm a part owner of  
21 the company and through that bankruptcy  
22 filing, they abandoned -- abandoned me and  
23 other common shareholders and just  
24 abolished our interest or that is what  
25 they hoped to do and I think that is wrong

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1  
2 and I am not a lawyer. I just wonder if  
3 it's not illegal.

4 Furthermore, in that bankruptcy  
5 filing, I understand the proposal was to  
6 include corporate management in the new  
7 company. I also think that the bankruptcy  
8 filing may have been premature. My  
9 understanding is they still have cash on  
10 hand, had not failed to pay any bills. I  
11 always thought that bankruptcy was  
12 supposed to be filed when you couldn't  
13 make your payments and as far as I know,  
14 that did not happen until after the  
15 filing.

16 Another thing is I did hear a  
17 conference call after the bankruptcy  
18 filing and I believe and I'm wondering if  
19 others in this room heard management  
20 talking about their primary responsibility  
21 being to the creditors, and I always  
22 thought it would be to the part owners,  
23 the shareholders, but apparently that's  
24 not how they see it. I indeed, I, like  
25 many others in this room, would like to

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1  
2 see Mr. Winnick and others sitting in  
3 front of some television cameras and  
4 sweating and pleading the Fifth or  
5 whatever it is they might do. Also, I  
6 would like to see Mr. Cohen, former  
7 Secretary of Defense, talking about Global  
8 Crossing since this bankruptcy filing and  
9 I've seen him on CNN and they always ask  
10 him about world affairs, but they never,  
11 at least when I've been watching, ask him  
12 about Global Crossing. It's a very  
13 complicated situation.

14 We talked about Mr. Winnick cashing  
15 out last May which is about the time I  
16 began to invest in this company. It has  
17 been, I believe, published that he may  
18 have suppressed information at that time  
19 about the deteriorating finances of the  
20 company while he was selling shares for  
21 considerably more than they are worth.

22 Now, whatever happens to this  
23 company, I would like, I think, the  
24 corporate officers should be replaced.  
25 They should have nothing to say about what

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1  
2 happens to the fiberoptic network or  
3 anything else with the company. These  
4 people have, in my opinion, they have no  
5 right to have any say over what happens to  
6 this company from now on. Furthermore, I  
7 would like to see our government have --  
8 do no business with the company if it  
9 continues to be led by Mr. Winnick and Mr.  
10 Legere, whatever his name is, Legere and  
11 others. I mean, I just think we should --  
12 no one should be doing business with  
13 people who have done this sort of thing.

14 As another -- as on the side as  
15 well talking about New York State, my  
16 understanding is that the New York State  
17 Pension Fund has lost money through their  
18 investment in Global Crossing. I think  
19 that also should be pursued. I did send  
20 an e-mail to Mr. McCall, but I haven't  
21 heard anything back about that.

22 And then lastly, and I appreciate  
23 the time, I think we should really focus  
24 on what are the options from hereon  
25 forward. Hopefully shareholders,

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1  
2 employees, everyone will have a chance to  
3 be represented in Bankruptcy Court, but  
4 also I mean certainly a problem at this  
5 point is where is the money and they did  
6 file bankruptcy with supposedly \$22  
7 billion worth of assets. Unfortunately,  
8 some of those assets were not real. For  
9 example, I think part of that was the  
10 investment in Exodus which is just not  
11 worth much. But this company has had --  
12 had relationships or has had relationships  
13 with Pacific Capital. No -- that would be  
14 a -- now, that would be a source now.  
15 It's like where is the money going to come  
16 from or where could it come from. Pacific  
17 Capital, also JP Morgan has loaned money  
18 to Global Crossing, but also the analysts  
19 from JP Morgan were panning the company  
20 stock. These are very complicated  
21 relationships.

22 Canadian Imperial Bank of Commerce,  
23 some former friends of Mr. Winnick, they  
24 must be current friends. When friends  
25 give you that much money, they would be

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1  
2 friends.. I mean they were involved,  
3 cashed out and made a lot of money off  
4 this company and then also, of course,  
5 Arthur Andersen, and if they have anything  
6 left, I would just wonder if that would be  
7 a source for people. I think it's Mr.  
8 Perrone, was the former auditor who then  
9 joined Global Crossing -- just an example  
10 of the way these people have conducted  
11 themselves. I believe they gave some  
12 business to Mr. Perrone's son with an  
13 Internet company in Chicago which Global  
14 Crossing may have been his only client.

15 So, you know, I guess the two  
16 things I want to really focus on again are  
17 what, and this may be -- would even be an  
18 issue for the SEC, what is the obligation  
19 of corporate officers, corporate  
20 management to their shareholders besides  
21 nothing like lying. I thought they were  
22 supposed to fight for the shareholders and  
23 for people who were part owners of the  
24 company. And then, also the focus I think  
25 should be on where do we go from here. Is

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1  
2 there anything good that -- or anything  
3 good or can we make this less bad by -- in  
4 the future. So, thank you.

5 MR. RABSON: Barrie Rabson, 9  
6 Harrington Drive, Fairport. I would like  
7 to follow up these remarks with some  
8 further remarks.

9 I was a long-term investor from  
10 Frontier going all the way back when it  
11 was Rochester Telephone. I invested  
12 money, but I felt the company was well  
13 run. It had lots of opportunities. I am  
14 not going to talk about -- I'm not going  
15 to talk about financial irregularities  
16 which we are all aware of, rather I would  
17 like to talk about the misleading  
18 information that this public relations  
19 department kept churning out to the public  
20 through the Internet, through print media,  
21 almost on a daily basis.

22 Hardly a day would go by when we  
23 didn't hear all these good things about  
24 new contracts, new products, new services,  
25 new strategic alliances. All with a very

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1  
2 positive spin, few of any negatives were  
3 brought out. In fact, I can't remember  
4 anything that I saw in print that was  
5 negative. Indeed, when earnings were bad,  
6 Gary Winnick said, don't look at regular  
7 traditional earnings per share, look at  
8 cash earnings per share which were move  
9 favorable. Obviously now we find out that  
10 they were more favorable because they  
11 counted long-term contracts that they got  
12 over a ten-year period. They counted them  
13 as revenues in a given year and he said to  
14 stockholders and investors, look at those  
15 earnings per share, not in the traditional  
16 way. There's obviously a deliberate  
17 attempt to mislead. While the stock  
18 continued -- when the stock continued to  
19 fall, Global's CEO, and I can't remember  
20 which one at the time, issued an  
21 announcement that the stock was being  
22 manipulated by a small number of  
23 speculators. Don't worry, it's strictly  
24 manipulation of the stock of speculators  
25 and not -- I repeat, not anything that is

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1  
2 deep down problem within Global Crossing.  
3 It's obvious to me that Global Crossing's  
4 executives were deliberately trying to  
5 mislead investors where these days most  
6 companies lean over backwards to disclose  
7 honest results to the public.

8 I would also like to comment before  
9 I'm finished under how some of the large  
10 investment firms brokerage houses played a  
11 role in all of this. For example, in the  
12 spring of 2000, Shearson, Lehman or  
13 Goldman Sax -- I can't remember which one  
14 -- issued a sixty-page report this thick  
15 extolling the virtue of Global Crossing  
16 and actually projecting a price I remember  
17 of a hundred, a hundred. Only later did  
18 we find out that that firm was  
19 instrumental in their underwriting of  
20 preferred stock and bond issues which I  
21 think is conflict of interest.

22 So you know, I feel sorry for all  
23 of the employees, former employees of  
24 Global Crossing and Frontier, of Rochester  
25 Telephone. I feel sorry for those same

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1  
2 employees who got a double whammy owning  
3 stock in that fine company when it was  
4 Frontier, when it was Rochester Telephone,  
5 and I feel sorry for myself and for  
6 investors who lost a lot of money in this.  
7 Thank you.

8 MR. PROVINCE: Jay Province,  
9 P-r-o-v-i-n-c-e. I'm an individual  
10 investor. I'm from Scottsville, Virginia,  
11 2100 Mount Warren Lane, Scottsville,  
12 Virginia.

13 I want to speak today about the  
14 Global Crossing potential stock  
15 manipulation. We are a group of basically  
16 stock investors. We communicate a lot  
17 through the Internet. We formed a group  
18 called Action Dot Org where we check  
19 articles, information, research. It's  
20 open to the public. Feel free to go by  
21 there and do that kind of research.

22 One thing I want to say is that I'm  
23 really glad I came up here. It's been a  
24 16-hour red eye for me, but it's been real  
25 important for me to connect, real with the

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1  
2 physical Global Crossing/Frontier, the  
3 actual employees and hear the stories that  
4 have really kind of charged me up quite a  
5 bit.

6 One thing I want to do is separate  
7 the management from Global Crossing, from  
8 Global Crossing as a company. I think  
9 Global Crossing has wonderful products,  
10 wonderful service, wonderful capabilities.  
11 I think its management stinks, truthfully  
12 stinks. However, more than stinks, I  
13 think it's -- it stinks to high heaven.  
14 Some of the things that I have become  
15 aware of through my research really point  
16 to perhaps criminal behavior. I know  
17 people have been -- people have been  
18 reluctant to mention that word. I have  
19 heard it said on the news, well, they  
20 didn't do anything criminal. We will get  
21 to that in a second. But some of the  
22 things I would like to point out are the  
23 Canadian Commerce Imperial Bank of  
24 Commerce. Look at it. You start peeling  
25 that onion and you will find it. I'm

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1  
2 certain of it. Li Ka Shing is a major  
3 shareholder of the Canadian Imperial Bank  
4 of Commerce. A lot of friends of Gary  
5 Winnick are on that. They gave him an  
6 initial \$30 million loan. From that, they  
7 have gathered \$2 billion in profits. In  
8 October of 2000 they hedged, we called it,  
9 hedged their remaining 47 million shares  
10 in Global Crossing. Gary Winnick also  
11 sold shares in August of 2000. They also  
12 brought Mr. Perrone on at that time and  
13 profits kind of started inflating. They  
14 looked good, you know, and then when they  
15 declared bankruptcy, which I want to also  
16 mention, it was interesting to me because  
17 I was watching it very carefully and I was  
18 watching institutional stock manipulation,  
19 there was really a battle going on there  
20 when Global Crossing announced its  
21 commitment extensions word, good news,  
22 we're going to get these things  
23 renegotiated. We are going to go forward.

24 The stock in the pre-market on  
25 Monday, December -- that would have been

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1  
2 the 30th -- 31st, sorry, the 31st, was 95  
3 cents. Why is that significant? Because  
4 if it goes above a buck it won't get any  
5 listing. They know that. December 12th  
6 -- December 13th, right in there, it went  
7 below a buck. They kept that stock down.  
8 When it started going the pre-market to 95  
9 cents, they are like whoa, whoa, they got  
10 to hit hard to keep it down by selling. I  
11 said why in the world, why would someone  
12 want to sell at a price lower than willing  
13 buyers are willing to buy it for? Well,  
14 the answer came on to my mind on January  
15 28th when they declared bankruptcy 30 days  
16 after it had been under a dollar. Okay,  
17 what did that do? It took it off the New  
18 York Stock Exchange, immediately took it  
19 to the pink sheets. They covered 130  
20 million shares that day. Didn't hear  
21 anything about it on the news. It was  
22 like the Titanic went down in the middle  
23 of the ocean, no news. If that had  
24 happened on the New York Stock Exchange, a  
25 lot more scrutiny would have come on to

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1  
2 the company a lot earlier. Two days after  
3 the Canadian Imperial Bank of Commerce  
4 announces they made like \$300 or \$320  
5 million in shares and they expect to  
6 continue to make money from the  
7 significant, their word, "significant  
8 amount of hedged funds, hedged shares," we  
9 still own 47 million of them. They sold  
10 10 million. Why didn't they sell all 47  
11 million? Well, not sell, but cover the  
12 hedges. The reason, the profit would have  
13 been too obscene. They would have made  
14 like \$2.1 billion. A company declares  
15 bankruptcy, the Canadian Imperial Bank of  
16 Commerce says, hey, we made \$2.1 billion  
17 dollars, don't you think people would have  
18 looked up on the New York Stock Exchange?  
19 Sure they would have. They would have  
20 said, oh, 200 million we lost to loans.  
21 Well, if your an employee of the store  
22 you're gonna rob, you better blacken your  
23 eyes because it looks a little better that  
24 way.

25 So I really would urge Congress in

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1  
2 this hearing to look at those  
3 relationships, get them under their lies,  
4 ask them about the relationships with  
5 Winnick's old friends from Drexel and  
6 Lambert.

7 One thing I want to mention here,  
8 too, a quote from Michael Murphy who's an  
9 independent stock advisor. I think he  
10 summed it up a little -- pretty well. He  
11 sent a letter to his investors. "I also  
12 wanted to mention a company we cover in  
13 the California Technology stock letter,  
14 which is Global Crossing. We got some  
15 e-mail from some of our subscribers about  
16 it. First of all, obviously we didn't  
17 think that Global Crossing would file for  
18 bankruptcy. They had enough cash to make  
19 it through to the end of the year -- and  
20 there he is talking about 2002 -- we  
21 especially didn't think that they had  
22 filed in such a way as to completely shaft  
23 the current shareholders, and we don't  
24 think they are going to be allowed to do  
25 that."

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THE AUDIENCE: Good.

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(Whereupon the audience clapped.)

24

25

MR. PROVINCE: "So, if you own it, we'd certainly hold it. There are assets there per share no matter how you haircut them, a dollar to four dollars per share for the common shareholders, who are writing the Bankruptcy Court already and are contacting Senators and Congressmen, so if you own Global Crossing, we'd certainly hold it."

There are assets there per share no matter how you haircut them of one dollar to four dollars per -- for the common shareholders. So that just shows that a lot of analysts feel that there is really value there. There is real equity there and that this is a trumped up filing. Okay.

Getting to that, I feel like this is a real abuse of the Chapter 11 bankruptcy law.

MR. PROVINCE: It's come and get it. Step right up and get it. It's a

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1  
2 hilarious song where he talks about this  
3 product that does everything for you and  
4 this is what I feel like Global Crossing  
5 does with their Chapter 11. It will comb  
6 your hair. It will pay off your credit  
7 cards. It will be -- do everything for  
8 you.

9 A couple things. One, as people  
10 pointed out in here, it allowed them to  
11 renege on the ex-employees, you know,  
12 severance pay. Then they attempt -- are  
13 attempting to throw out shareholders'  
14 suits against them, by using we are in  
15 Chapter 11. So they had a relationship  
16 with so and so and they go so and so, hey,  
17 you guys didn't pay. We are shutting off  
18 your service. So you guys didn't pay, we  
19 are shutting off your service. Hey, you  
20 can't do that. We are in Chapter 11.  
21 They are doing it that way. So that's one  
22 of the things I think they are using it as  
23 a catch-all for what they are doing. I  
24 think the real intent there -- I'm just  
25 going to say it, just because I'm man of

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1  
2 the street, I can say whatever I want to,  
3 I think that they made money big time on  
4 the way up, then when things started to  
5 sour a little bit because this is all Gary  
6 Winnick knows, he is not a manager, he  
7 knows nothing about tailcoats, all he  
8 knows is how to cut slick deals, sharp  
9 deals, you know, ones that are behind the  
10 scenes and that, you know, are dirty, so  
11 that they said back along October of 2000,  
12 you know, let's tank it.

13 How has CIBC's timing always been  
14 so impeccable? They have always known  
15 what to do when it comes to Global  
16 Crossing's money years in advance of  
17 anyone else. So they make it go up. They  
18 tank it. Hey, Chapter 11. Shareholders,  
19 guess what, we are wiping you out. Why  
20 did they say that? Because that was the  
21 only way they were going to be able to  
22 cover the hedges in the shorts. It was  
23 the only way there was going to be panic  
24 selling even if they had said Chapter 11.  
25 Most people say Chapter 11 restructuring.

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1  
2 A lot of reputable companies have already  
3 been said are able to include employee  
4 shareholders, everybody and everybody  
5 takes a small haircut. Nobody takes a bad  
6 one. Okay. But they said it that way  
7 because people have the streak and  
8 determination and the will to hold until  
9 they said we are going to wipe you out.  
10 And baby, they did it, they ripped it off  
11 the New York Stock Exchange and they  
12 covered those things. There was panic  
13 selling. The price dropped to 13 cents,  
14 what, 9 cents today; something like that.  
15 So I feel like it was definite  
16 manipulation.

17 Then Gary Winnick and Mr. Green on  
18 the board had unbeknownst to the rest of  
19 the board made a deal with Li Ki Shing to  
20 take on some ownership in another shell  
21 that he owns some God-awful place, God out  
22 there in the world and they are going to  
23 say, well, we -- now we are owners of this  
24 and ultimately they will be owners of  
25 Global Crossing. We will come out of this

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debtfree, no other shareholders will have room. We will be a judger, there's nothing that can wipe out our competition because we shall undercut their prices big time. We will have a monopoly.

There's major danger and I don't think it's been really clearly stated that there is perhaps real criminal intent here and there is a real plan here. This is not how they are presenting it. This is just a result of the economy. This is just the result of some change in what is going on. This is their plan. They are using that for cover. I think they thought they were going to come in under the Enron thing under radar.

CONGRESSWOMAN SLAUGHTER: They are not.

MR. PROVINCE: Good. Thank you.

MR. COOMAN: Dan Cooman, C-o-o-m-a-n, 715 Dewitt Road, Webster, New York. I can appreciate everyone for all their comments and everything else. I, too, lost a lot of money in the stock.

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1  
2 Shame on me. I didn't listen to  
3 investors. One thing that does concern me  
4 now is a frozen pension plan. It is my  
5 understanding the money has not been  
6 transferred. Denny, \$562 million?

7 UNIDENTIFIED MAN: 550.

8 MR. COOMAN: \$550 million. This is  
9 a set amount in a pension plan from  
10 Rochester Tel. Global Crossing is still  
11 holding this money hostage. This was  
12 never theirs to begin with. It belonged  
13 to the past employees no matter what job  
14 they held in Rochester Tel. My only  
15 request is, please, let's try and salvage  
16 this.

17 CONGRESSWOMAN SLAUGHTER: We are.

18 MR. COOMAN: Thank you.

19 MS. LOPER: My name is Christine  
20 Loper, L-o-p-e-r, and my address is 322  
21 Oak Tree Drive, Canandaigua. My name is  
22 Chris Loper and I was with Global Crossing  
23 for five years. I started as a Frontier  
24 employee five years ago and like many of  
25 you in this room, I put my heart and soul

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1  
2 into my job. I was a salaried employee  
3 working sometimes 80 hours a week  
4 sacrificing my family, my husband and my  
5 children, my dog and right up until the  
6 last minute, my ethics were very high. I  
7 was at a -- on an emotional rollercoaster.  
8 We were told one day it's going to happen  
9 today. The next day, well, it's going to  
10 happen next Monday. We never knew when we  
11 were going to be laid off, but one thing  
12 that I didn't do with all the people that  
13 reported to me, I wanted to tell them to  
14 start looking for jobs and it wasn't  
15 ethical to do that. I just wish that Gary  
16 Winnick shared the same ethics that the  
17 employees of Frontier, Rochester Tel,  
18 Global Crossing, whatever name that you  
19 want to put on us, I wish he shared the  
20 same ethics.

21 One of the things that I wanted to  
22 share was some information that I found  
23 out. I don't know how many people are  
24 going without health insurance, but when I  
25 lost my health insurance I was told it was

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1  
2 going to cost me with no income \$566 a  
3 month for insurance. I did some  
4 investigation on the Internet and I found  
5 out that Blue Cross and Blue Shield offers  
6 a plan called Value Med Plus and it is for  
7 employees that have lost their jobs. It  
8 is half of the monthly premium. It's less  
9 than half. I pay \$241 a month for my  
10 family plan for my health insurance and  
11 the benefits aren't as great, but they are  
12 very close and it's something that I'm  
13 appreciative to Blue Cross and Blue Shield  
14 that they are offering something like that  
15 to employees that have lost their jobs.  
16 And that's all I have to say. Thank you.

17 MS. BAUMAN: My name is Joanne  
18 Bauman, 206 Governor Terrace, Rochester,  
19 New York 14609. First I would like to  
20 thank Mrs. Slaughter and Mr. Dollinger and  
21 Ms. John for doing this. We truly  
22 appreciate it. I just want to say I know  
23 and I'm trying not to repeat myself from  
24 what some of the other people said, but  
25 down there scribbling then somebody would

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1  
2 say something so I do apologize.

3 Two and a half years ago, only a  
4 slight two and a half years ago, which  
5 isn't very long I don't think in my book,  
6 1999, Global Crossing, like I said, less  
7 than \$400 people purchased Rochester Tel  
8 which took all the former Home Telephone,  
9 Rochester Telephone, Frontier Telephone  
10 stock and converted it to Global Crossing  
11 stock. Now, as an employee, I watched  
12 too, read literature, the rallies, the  
13 reading, their web pages, all the promoted  
14 and they all promoted -- and told us of  
15 how well Global was doing in obtaining  
16 billion dollar contracts including the  
17 government with numerous articles in local  
18 and national newspapers of these large  
19 business deals benefitting Global Crossing  
20 with the stock going from in 1996, when we  
21 were still independent with some major  
22 labor issues, that were approximately \$15  
23 a share up to \$64 a share. Now Global  
24 executives had license plates even saying  
25 \$100 Global Crossing. We believed what we

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1  
2 were told.

3 And people that worked for the  
4 communication know what really works off  
5 of telephone lines, not only your home  
6 telephone, but alarms, your data security,  
7 the Internet, lottery lines, et cetera, et  
8 cetera. It is just unbelievable what  
9 really works off of your telephone line.  
10 The demand for the data not only would  
11 increase income and revenues, but it would  
12 also demand more service from Global  
13 Crossing and this is what we believed.  
14 Were the employees wrong for believing;  
15 was the community also wrong for trusting  
16 and believing; what was the solely stable  
17 company that advanced in technology to  
18 take stock in it? This not only impacts  
19 employees, retirees and former employees,  
20 the community and numerous other national  
21 businesses also are impacted who took  
22 stock or left their stock in faith of  
23 Global Crossing.

24 When the stock was going down, we  
25 were told that it's because of their

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1  
2 investment in placing with fiber  
3 internationally and under water with other  
4 telecommunication companies running the  
5 use of this fiber. How could this go  
6 wrong?

7 I believe they had a plan, a  
8 private stealing plan. That's why they  
9 sold off the part of Global Crossing that  
10 was formerly Rochester Telephone which  
11 also had local companies throughout the  
12 United States. The reason they sold this  
13 off, they don't have to answer the Public  
14 Service Commission. They sold this off  
15 and they kept the stock as Global Crossing  
16 which hence we see what they did with  
17 that. Is it what they stole it in and you  
18 are hiding it in the shadows of Enron?

19 You know, I couldn't cash my stock  
20 for five years, but I watched it go under  
21 a dollar. I believe -- sorry, I lost the  
22 spot in my notes. Here. I believe they  
23 would come back. I guess that's why I had  
24 to stumble over reading that. I still  
25 can't believe it. I couldn't even read

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1  
2 it, you know. I guess maybe what was I a  
3 fool, but what was it myself, everybody  
4 else, everything else going on with  
5 September 11th, all communication, all  
6 stock, everywhere was going down. We just  
7 still believed everything was going to  
8 come back. We would be back strong.

9 But I was hired 30 years ago as  
10 Rochester Telephone and a member of the  
11 Communication Workers and I was hired as a  
12 clerical person who to work my way up to  
13 technician and I watched the telephone  
14 company expand to long distance and  
15 cellular with the base of profits and it's  
16 a sweat of the community here we're made  
17 from primarily from the money of community  
18 of Rochester. I'm also young enough to  
19 recoup what I lost, perhaps working till  
20 I'm 70, if necessary. But a lot of others  
21 who invested were lied to do not.

22 Thank goodness for the 401(k) that  
23 I diversified, although, I want you to  
24 know that I only had five choices when it  
25 first started. I only had two which was

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1  
2 stock or stable fund. Then later they  
3 advanced us, said we could have five  
4 choices, either stable stock or still like  
5 S&P, Voyager and there was another one. I  
6 didn't take that one, I guess. So about  
7 \$100,000 is a lot of money to me even  
8 though it's lunch money to Winnick. But  
9 those who come here and rape the  
10 stockholders of Rochester Telephone,  
11 Frontier Telephone, of their future and  
12 savings do need to be investigated of all  
13 illegal doings. What did they do with the  
14 billions of dollars they got from  
15 Citizen's less than eight months ago?  
16 Where is it? I think the plan was to rob  
17 our innocence.

18 This Dan -- as Dan Cooman  
19 mentioned, they still haven't turned over  
20 our pension fund. This almost \$600  
21 million of mostly Rochester Telephone only  
22 because they haven't figured out how to  
23 steal that, too. I do believe with Bob  
24 Conico for jail for Gary Winnick, but  
25 please don't forget the rest of his team.

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1  
2 They all stole from our accounts.. and from  
3 our innocence, to please don't make it a  
4 cushy prison, but if they do, could you  
5 bring back the chain gang. I hope to see  
6 all of those executives in orange suits  
7 and chained together.

8 (Whereupon the audience clapped.)

9 MR. BURAT: My name is Jobe Burat,  
10 B-u-r-a-t. I'm from Shohocken (phonetically),  
11 Pennsylvania. It's outside of Philadelphia. I only  
12 want to make a couple statements. I don't know how  
13 many people realize here that John D. Rockefeller took  
14 25 years to make his first billion. Gary Winnick only  
15 needed 18 months.

16 Second of all, I do believe that  
17 Gary Winnick should go to jail. The Board of  
18 Directors should go to jail and they should be treated  
19 as drug dealers. They should have their property,  
20 their money, their stock, all confiscated by the  
21 government.

22 Me, myself, I'm on Social Security  
23 Disability. I lost probably about half of my  
24 portfolio life savings in Global Crossing. I was  
25 lucky enough to remortgage my house, but I feel very

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1  
2 sorry for the community of Rochester that either had  
3 to sell their house or was not able to remortgage  
4 their house. My heart goes out to you. I hope in  
5 Congress they might be able to pass some kind of laws  
6 that make CEOs responsible enough, if not, or the  
7 money they've stolen, it should all be repossessed.  
8 That's about all I have to say. Thank you very much.

9 MS. CAPLES: Lisa Caples,  
10 C-a-p-l-e-s, 111 Larkwood Drive, Rochester, New York  
11 14626.

12 My name is Lisa Caples and I was  
13 manager at Global Crossing two years ago. I gave up a  
14 20-year career with an excellent company to join  
15 Global Crossing. I was enticed by the salary, the  
16 stock option, the opportunities and the outstanding  
17 benefits. I don't regret joining Global Crossing, I  
18 only regret the way in which my release was handled.  
19 On January 15th I was severed from the company.  
20 Again, no regrets as I was offered a fair severance  
21 package, a lump sum payment was not an option to me at  
22 that time. Within a week from receiving my severance  
23 notification upon the bankruptcy filing, my severance  
24 package was rescinded and I was never notified of  
25 this. Apparently there was an Internet website which

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1  
2 included this information; however, no letter, no  
3 notification, no communication was ever delivered to  
4 me, the severed employee.

5 My severance package also included  
6 outplacement service to be provided through Goodrich &  
7 Sherwood Associates. Upon immediately contacting  
8 them, I was informed at Global Crossing that Global  
9 Crossing had not paid for their service and therefore  
10 I was and still being declined their assistance. I'm  
11 disheartened by this company. This company that I was  
12 truly dedicated to for two years. I'm saddened that  
13 people that I hired to join Global Crossing have lost  
14 their jobs, their severance packages, their benefits,  
15 their 401(k) and their stock options.

16 My intent in speaking today is not  
17 to slam the executives and past executives of the  
18 company, but to ask you to investigate the company's  
19 questionable actions. Please do for us what you can  
20 to get back what was promised to us. Thank you.

21 MS. CRUMPLER: Hi, my name is  
22 Lenette Crumpler, C-r-u-m-p-l-e-r, (716) 247-7778, and  
23 my address is 263 Hidden Valley Road, Rochester, New  
24 York 14624.

25 I'm very nervous up here. I

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1  
2 haven't spoken -- done public speaking since I was in  
3 high school so it's very nerve-racking for me. But it  
4 seems the one point that I really wanted to make that  
5 I don't think has really come out good enough is that  
6 -- and that is I really do believe that when Global  
7 Crossing purchased Frontier they never ever had any  
8 intention whatsoever on growing a business here in  
9 Rochester. Their main reason was to pillage. And  
10 this wealthy company that held a \$700 million fund  
11 when they purchased us, what happened to the rest of  
12 it? I don't know. We got the 2000 statement saying  
13 that there was money missing out of it. We still  
14 don't know what the 2001 forecast will be as to what  
15 truly is in that fund and I really believe that they  
16 have been in it and they are buying time to either put  
17 it back in there or to find some kind of way to  
18 explain what happened to the millions that they've  
19 stolen from it.

20 I'm very upset. I lost \$86,000.  
21 I'm a single mother. My children are grown now, but I  
22 raised two children all with Rochester Telephone which  
23 eventually changed its name to Frontier. They  
24 provided a wonderful life for me and my children. I  
25 never have --

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1  
2 (Whereupon the audience clapped.)

3 MS. CRUMPLER: I never have --  
4 this was a family-oriented business and  
5 they took care of us and what I want to  
6 say is that we know what President -- on  
7 9/11 when our country was brutally  
8 attacked, we were able to find the  
9 terrorists' money and we froze it and what  
10 I'm asking today is I want Congress, yes,  
11 do a Congressional hearing with Global  
12 Crossing. Find our money. Trail the  
13 money to us. Where is it? It is -- is it  
14 overseas? I don't care where it is. Find  
15 our money. Bring it back. If there is  
16 anything that we can prove it's that  
17 criminal things took place with Global  
18 Crossing, and I truly believe in my heart  
19 that it was. I think Gary Winnick is a  
20 parian. I think pariah. Thank you very  
21 much.

22 MR. HERRMANN: My name is Mike  
23 Herrmann. I live at 878 Clover Street in  
24 Rochester. Just a couple points I want to  
25 make that was mentioned before. The

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2 401(k) -- I called Putnam shortly after I  
3 was laid off in November and Putnam  
4 informed me that I was still an active  
5 employee and when I called Global Crossing  
6 Human Resources, they took responsibility  
7 and said we had failed to notify Putnam of  
8 that so that was the liability on their  
9 part.

10 Another comment that I haven't  
11 heard anybody mention here is Tom Casey  
12 mentioned it, John Legere mentioned it,  
13 that we were always fully funded, that we  
14 were never to worry about anything because  
15 we were fully funded. We weren't like  
16 this company or that company. We were  
17 fully funded. The question would be, what  
18 did that mean and where is the  
19 responsibility in making statements such  
20 as that?

21 If you are looking for places to  
22 look, a couple that would certainly  
23 deserve looking at are the relationship  
24 with Exodus Communications. I was Product  
25 Development Manager for that and that was

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1  
2 a relationship that was really bad from  
3 the get-go, never had a chance and Tom --  
4 excuse me, Tom Casey -- but Leo Hendry  
5 (phonetically) was the CEO of Global  
6 Crossing at the time, also was on the  
7 Board of Directors for Exodus  
8 Communication at the time, for him to  
9 allow a transaction that went through and  
10 quickly failed, he should have known.  
11 There should have been a responsibility  
12 sitting as a Board of Director member to  
13 know that those things go on.

14 The other was the sale of Frontier  
15 to Citizen's. There was an international  
16 memo which at the time I was not able to  
17 keep every memo that I had, but the issue,  
18 that statement that said there was a three  
19 plus billion dollar transaction, but  
20 Global Crossing was recognizing it as a  
21 hundred million dollar loss, so if you  
22 could bring people in and identify how did  
23 that hundred million dollar loss happen?  
24 That would be a red flag that would be a  
25 concern.

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2 My personal opinion now, I came to  
3 Global Crossing, too, from a good  
4 business, was lured by activity there. I  
5 personally believe in hindsight now, the  
6 company never really had a chance in  
7 making it; the fundamentals of how you  
8 structure a business, putting together  
9 product developments.

10 I had responsibility of putting  
11 together the product development plan for  
12 the year 2001. It was a plan put together  
13 that had -- in no way did it have the  
14 resource of the company in line to deliver  
15 these things. We went through a number of  
16 layoffs with even fewer resources and  
17 continued telling the market that we were  
18 going to continue to deliver these  
19 functions and we had no chance whatsoever  
20 to deliver those things.

21 There is also a case of I believe I  
22 have been told that there was pre-IPO  
23 acquisition of stock of some of Global  
24 Crossing vendors. Zonus Corporation, in  
25 particular, extended pre-IPO stock to some

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1  
2 Global Crossing executives and members in  
3 decision-making -- makers in selecting  
4 vendors. If you're running a fundamental  
5 business, you don't select a vendor by  
6 owning part of that vendor. While it's  
7 not illegal, it certainly is conflict of  
8 interest.

9 The last is just in the sense of  
10 when I got laid off, it gave me some time  
11 to do some reading and I did a lot of  
12 reading of Steven Ambrose's book talking  
13 about World War II. Some of that really  
14 built the country where we are today and I  
15 thought of Tom Brokaw's book called "The  
16 Greatest Generation." I think in dealing  
17 with Mr. Winnick and various CEOs, we  
18 have, I think, we really created a new  
19 chapter of the book, really to highlight  
20 the weakest generation we have seen in the  
21 world. That is very disheartening to have  
22 to explain to my eight-year-old son why  
23 I'm home all the time. While it's fun for  
24 him and it's great to be around, but how  
25 did this happen? I mean, I look back in

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my history. I worked for Global Crossing,  
that failed. I worked for Arthur  
Andersen. I used to be part of that.  
Before that I worked for a bank in Erie  
County that was -- went insolvent. So  
being 40 years old, that's a pretty tough  
record to explain to the child why  
business is where you want to go. But on  
the same token, I want to say, if you view  
the big picture, I think the opportunity  
to be able to have this and talk about  
this, I think is great testimony to our  
country, that we can have these open  
discussions that in the long-term, while  
we can't necessarily legislate all these  
things, I think it's great to have the  
forum, the freedom of the press and  
Congress and Senators and State Assembly  
to be able to talk. Thank you.

CONGRESSWOMAN SLAUGHTER: Let me  
ask you, you said -- I wonder about  
product development. If I understood you  
correctly, you said that you were making  
promises of product that you knew you

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would never deliver; is that correct?

MR. HERRMANN: Yes.

CONGRESSWOMAN SLAUGHTER: Were any  
of those made to the government on getting  
government contracts?

MS. RAGLAND: Just because my last  
position was Product Manager and in the  
product development between -- for Banwit  
Service and we were putting together  
product that you couldn't connect to  
anything else in -- so there were a lot of  
holes on what we were to develop and we  
were asked to target what you are going to  
sell, define it and they didn't want to  
hear anything beyond that. Make your 1/15  
date.

CONGRESSWOMAN SLAUGHTER: Whether  
it was possible?

MR. HERRMANN: Global Crossing put  
a -- for service level agreement, Global  
Crossing put in to say that our network  
would perform at this certain capacity and  
it is my understanding that the network  
never had a chance to perform in that

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1  
2 capacity, but the push was to make the  
3 deal to sell the contract. We would write  
4 whatever was required.

5 MS. COLLINS: One thing you might  
6 want to take a look at is that project  
7 teams were required to do their own  
8 internal operations, audit prior to, I  
9 don't know if it had been prior to selling  
10 the product, but you might want to take a  
11 look at the internal operation audit of  
12 some of these projects and what those  
13 internal audits said about those products  
14 as opposed to other statements that may  
15 have been made about those products.

16 CONGRESSWOMAN SLAUGHTER: Now,  
17 basically what you are telling me, the  
18 internal audit said this is not going to  
19 work?

20 MS. RAGLAND: There were holes.  
21 There were missing pieces to the product.

22 CONGRESSWOMAN SLAUGHTER: That  
23 really caught my attention there. Thank  
24 you. I appreciate you very much for  
25 coming.

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Anyone else wishing to speak?

MR. McMAHON: Yes.

CONGRESSWOMAN SLAUGHTER: Yes,  
sir.

MR. McMAHON: Phil McMahon,  
M-c-m-a-h-o-n, 7640 Creamery Road, Bergen,  
New York 14416.

I retired in 1990 so I've been gone  
a while. And there's several things I  
would like, Louise and every  
representative -- I have a little note  
here. That's it. I would like them --  
have them scrutinize the bankruptcy. I  
was always under the impression that your  
liability had to be more than your assets  
and that's not the way I understand it.  
So it looks like they washed the  
stockholders off there to make it come out  
where they wanted it to be. I want them  
to do -- you do your part to look at that.

The second thing, somebody  
mentioned earlier about the pension. I'm  
from the older group who left in 1990 and  
I want Louise, whoever it is, to assure

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that the pension from the older person, my name, my age and on, I believe it's under Citizen now, but I want to make sure it's --

THE AUDIENCE: It's not there yet.

MR. McMAHON: This is something that is very serious for the elderly people, somewhat older than I, that this money doesn't become bed money and that it stays where it should be and you support the elderly, myself included, for whatever we expect to get out of life and we don't want this money to -- money to be washed out into a pile that can't be got into. So I leave that with you, that our pension, we thought it was good and it's always been good. That it stays there.

CONGRESSWOMAN SLAUGHTER: Thank you.

MS. PENNELLO PHELPS: My name is Mary Pennello Phelps, P-e-n-n-e-l-l-o P-h-e-l-p-s. My mother is sitting back there. I'm very proud to say that my father worked for Rochester Telephone from

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1  
2 1960 until 1981. We worked -- he was a  
3 World War II veteran. He worked three  
4 jobs to support us so that my mother could  
5 stay home and in about 1970 he came to my  
6 brother and I and he said I think you  
7 should take some of your money out of  
8 college fund and invest it in Rochester  
9 Telephone, but you need to promise me that  
10 you will never touch it. So we didn't.  
11 That was -- I'm 48. I was about 18 or 19  
12 at the time, so it was about 30 years ago.  
13 I didn't touch it. I reinvested it. My  
14 mother, when my father died, got his  
15 pension and hopefully from what I'm  
16 hearing now, I'm getting very, very  
17 nervous, will continue to have it. She  
18 saved all the stock, never sold a dime of  
19 it and a few years ago when Global  
20 Crossing came about, she ended up with  
21 quite a nice chunk of money; not money,  
22 stock. She didn't sell it. She didn't  
23 need to. My father paid cash for his  
24 home. He had always worked. He had never  
25 taken a dime from the government and she

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left it there. Recently she started giving it to her grandchildren as a gift that she could give them from their grandfather for all of the hard work he had done. She recently told me that she wished she had done what other people had done and just sold off because then my kids would have had something.

I come here. I came here today with her to -- mostly because I was feeling really angry that we had lost this money. We went to the Global Crossing meeting when they came around. They gave us a nice speech, told us it was going to be worth \$100,000. I'm looking at my mother. We never have to worry about her no matter what happens. I came here today and I hear your stories and I am embarrassed that I'm worried about the small amount of money that I have lost. However, I am not an isolationist. I'm an educator. I'm probably one of the most sympathetic people to problems that are in this community, but I'm getting very sick

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1  
2 and tired of things happening in Europe,  
3 things happening in Afghanistan, things  
4 happening in the South American countries  
5 and America is always there to support  
6 them.

7 When I listened to these people  
8 today -- Mrs. Slaughter, you're not my  
9 representative. I live in the Town of  
10 Ogden. So I apologize, otherwise I would  
11 vote for you, but I'm also not a Democrat  
12 nor a Republican, but I want to ask you,  
13 challenge all of you to make sure that you  
14 remember that these are the people that  
15 support this country. 9/11 was a  
16 devastation. We should be doing what we  
17 have -- are doing in Afghanistan. We  
18 should be dropping food, but before we  
19 drop food in Afghanistan, we better make  
20 sure that these people who have supported  
21 you all these years and our government,  
22 people like our -- my father who fought  
23 for the freedoms we have are taken care of  
24 first and then go help somebody else.

25 CONGRESSWOMAN SLAUGHTER: We want  
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to hear from all of you, so even if you  
don't speak today, you have signed up  
here. We are going to keep you informed  
of everything that happens in Washington.  
We also want to hear from you. Please  
come up.

MR. FICO: My name is Matthew Fico,  
F-i-c-o, 97 Alliance Avenue, Rochester,  
New York.

My name is Matt Fico. I was an  
employee of Global Crossing. I was laid  
off November 16th. Please excuse me, I  
wasn't expecting to come up here and talk,  
but I was coaxed by a few of my coworkers  
to say a couple things. There are a few  
things that have not been brought up that  
I thought Ms. Slaughter would be  
interested in hearing that came to our  
attention.

I was part of the Carrier Account  
Management Team and the day after the  
bankruptcy filings there were people in  
our group who were still employed by the  
company who actually received raises the

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1  
2 day after bankruptcy. The day after we  
3 lost our severance, our health benefits.  
4 I mean everything was taken. People were  
5 actually receiving raises and I mean  
6 there's people in this room who I'm sure  
7 can confirm that there are names that we  
8 actually know that did receive that.

9 One thing that current employees  
10 were being told and people who had just  
11 left who had taken the buyout package were  
12 being told, they were still going to be  
13 moving to the Fairport facility, moving  
14 away from the facility over on South  
15 Clinton, moving to the Fairport facility.  
16 Now, if that is allowed to happen, Global  
17 Crossing is going to receive a tax break  
18 benefit from Monroe County Development  
19 Group. For a company to lay off hundreds  
20 of workers in Rochester, to, I mean,  
21 basically devastate the community  
22 economically, not just because people are  
23 losing their money, but people having to  
24 move out of the area, for them to be able  
25 to receive any benefits from the

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1  
2 government if they are allowed to move, is  
3 -- it's ludicrous. It's ridiculous. It  
4 should not be allowed to happen and I'm  
5 hoping that it will be -- that this --  
6 that would be stopped.

7 Just a few kind of side notes. I  
8 mean I invested all along in the Global  
9 Crossing even when the stock was going  
10 down. I always thought, well, we have a  
11 good product. I believed in what we sold.  
12 I believed in the service we offered. We  
13 were always being told in conference calls  
14 by our CEOs or whoever was running the  
15 company at the time that we, you know,  
16 that our technology was far superior to  
17 any of our competition. We had a full  
18 fiberoptic network that connected the  
19 world. We were the only company that had  
20 that. So I thought, you know, we have  
21 good products. That's something I want to  
22 invest in. That's something I want my  
23 future to lie in. And it's certain things  
24 that I remember, certain statements, and I  
25 believe conference calls from John Legere.

1  
2 He made that statement. I think the stock  
3 might have been around \$3 at the time. He  
4 made a statement, basically he said, you  
5 know, \$3 sounds like a bargain to me. I  
6 know I'm going to be buying. Well, at the  
7 time he is selling millions of dollars  
8 worth of stock, so, you know, do as I say,  
9 not as I do. He is getting 3 million, you  
10 know, Legere.

11 Also things that upset, you know,  
12 myself and people, I know that have been  
13 laid off and he's receiving a \$10 million  
14 loan. He's being given \$10 million worth  
15 of loans. He was given a \$3 million  
16 severance package from Global Crossing  
17 essentially to leave, to be the CEO of the  
18 same company while at the same time my  
19 small amount of severance that John  
20 probably might have had in his pocket the  
21 day he could have paid and right now I  
22 might be as upset as I am, he made the  
23 statement and I'm paraphrasing, forgive me  
24 if this is not correct, he said something  
25 like in a letter that I -- he sent to

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1  
2 employees at the time, "the future will  
3 basically let you know if I have earned my  
4 \$3 million." Well, I can already say,  
5 John, you have not earned it.

6 Then, again, you know, these are  
7 all just written down quick things. I'm  
8 sorry if it is coming out kind of  
9 convoluted. Thank you.

10 MR. FAGGIANO: My name is Chuck  
11 Faggiano. I live in Henrietta, 84  
12 Thompson Road; Faggiano, F-a-g-g-i-a-n-o.

13 Louise, Rick, Susan, I'm also a  
14 registered Democrat. I come from the  
15 other side of the fence. I'm a union  
16 person. We worked hard. I started in  
17 1958 for Rochester Telephone and for at  
18 least four decades that telephone company  
19 was a triple A company. We were very  
20 proud to be in that position. Back  
21 through negotiations I believe it was in  
22 the '70s, early '70s, Rochester Telephone  
23 gave us employees the option of buying  
24 stock into the company and, again, back in  
25 the '70s I was raising a family, my wife

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1  
2 and I got married very young, raised a  
3 couple kids. I hate to tell you how many,  
4 but besides Rochester Telephone, I worked  
5 two and three jobs in one day to support  
6 my family. Rochester Telephone was very  
7 good to me. I used -- I'm not a stock --  
8 I don't buy stock or anything, but that  
9 really enticed me to get into the stock  
10 company, why not get into buying something  
11 into our company. So I did. I didn't  
12 have an awful lot of money in those days.  
13 We weren't making a lot of money, but a  
14 dollar was almost a dollar. So I invested  
15 every week out of my paycheck. I can't  
16 remember exactly. It was \$8 or \$10 a week  
17 and that kept on multiplying, multiplying  
18 and I hope the news media doesn't put it  
19 on the air because my wife will kill me  
20 because she doesn't know what I do, but I  
21 lost a little over \$120,000 and, again,  
22 I'll give you the -- you the number of  
23 children my wife and I raised, nine  
24 children.

25 In '95 I had to retire. I retired

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1  
2 and I retired proud and everything we  
3 earned we worked for through bargaining,  
4 collective bargaining and all of a sudden  
5 these slick individuals come into our  
6 community and they start talking some  
7 different nonsense and unfortunately our  
8 peers at Rochester Telephone and Frontier  
9 believed them and, again, I don't like to  
10 move my money or whatever. I kept money  
11 right in Rochester Telephone. I believed  
12 in it and all of a sudden it's gone. It's  
13 gone. I do have a pension and I just  
14 started Social Security. I'm not really  
15 hurting. I really feel bad for these  
16 individuals here. I really feel bad for  
17 you folks and it's not fair, those folks,  
18 Louise, and the rest of you folks that  
19 represent us in Albany and in Washington,  
20 they need to be put in jail. They should  
21 not be deserving to walk the streets in  
22 our country. They should be removed of  
23 all their assets and put in the jail and  
24 please do that and make sure our pension  
25 stays there and gets back to us retirees

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1  
2 and take care of the future retirees of  
3 this company now. Thank you.

4 CONGRESSWOMAN SLAUGHTER: As I said  
5 to you very early on, we invited Global  
6 Crossing to come and they graciously have  
7 come and I would like to ask Dave Carey.

8 MR. CAREY: David Carey, C-a-r-e-y.  
9 My address is 27 Sunrise Hill, Pittsford.

10 Congresswoman and Senator,  
11 Assemblywoman, thank you for putting this  
12 forum together and to all of my friends  
13 and colleagues in the audience. This is  
14 probably one of the more difficult moments  
15 of my professional career. You have shown  
16 some real courage today. It pains me to  
17 stand up here, but I have to. My family  
18 came from this community. I grew up in  
19 Upstate New York, so I'm not a  
20 carpetbagger. I came to this community  
21 and came to help build Frontier shortly  
22 after Ron Bittner had passed away. I knew  
23 Ron Bittner from a previous experience.  
24 He was on the Board of Directors with the  
25 company that I was previously with,

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1  
2 invited me to join back in 1997 and those  
3 of you who can recall, we were also  
4 experiencing some tough times.

5 The courage that you have shown  
6 today to speak out, this is a very healthy  
7 process. We have got one terrific  
8 legislator and group at the State and  
9 Federal level working on our behalf  
10 because I think what we all have to  
11 believe is while we may not individually  
12 or even collectively believe in every  
13 decision that was made to cause us to come  
14 together here today, what we do have to  
15 believe is that we can individually and  
16 collectively do something to insure that  
17 we never have to find ourselves in a  
18 similar situation again. These kinds of  
19 processes are healthy. They are  
20 important. They are part of our political  
21 system. They are part of what we create  
22 environment for us to raise our kids so  
23 that it's better for them than it was for  
24 us.

25  
Now, as most of you know, you know  
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1  
2 I'm with you. I lost a lot, too. It's  
3 all relative. I started with nothing. My  
4 father was with a Chrysler dealership down  
5 the road in Utica. It's very real, the  
6 pain and suffering is truly there. I was  
7 chosen as one of the, you know, I was one  
8 of the junior leaders. I wasn't up with  
9 Joe Clayton at the time, but many of you  
10 worked with me, beside me, for me and we  
11 built this thing. We brought it back from  
12 '97 and put it into position that it was  
13 and every aspect of business was, whether  
14 it was local telephone operations, the  
15 national network, we completed and built  
16 together the conferences business that we  
17 turned around twice, actually, and I have  
18 the -- have to fundamentally believe that  
19 we can do it again.

20 Congresswoman, you started this  
21 thing off when you said something to the  
22 effect, I certainly hope that Global  
23 Crossing can become a healthy company  
24 again. There is too much talent in this  
25 community for that not to happen.

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1  
2 On a very personal level, I have  
3 made it a very simple choice. Actually,  
4 it was not a hard decision for me to stick  
5 it out and I'll give my honest effort and  
6 my very best to make sure that this thing  
7 does emerge and that it comes out stronger  
8 than it was before and hopefully one day I  
9 hope you receive a phone call from me or  
10 another one of your colleagues saying,  
11 hey, we got a place back here for you. We  
12 need you again. Don't leave this  
13 community. This is a good place to live.  
14 It's a great place to bring up a family.  
15 I've lived in a dozen cities in this  
16 country and brought my family back here to  
17 do just this. I plan on my kids staying  
18 here as they grow up.

19 What I just said isn't fully  
20 prepared, but I do want to share a few  
21 things with you. This is the fourth time  
22 in my business career that I've been  
23 involved in turning a business around. I  
24 usually come in just kind of past the  
25 point where it's kind of gone through the

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1  
2 bottom and I usually have been brought in  
3 to help figure out what it is you have to  
4 change in order to put the things back on  
5 the upside. It is a tough set of choices  
6 as an executive when you sit there and you  
7 know that the decisions that you are  
8 making affect people's lives very  
9 materially. To think that I can't  
10 explain, you know, some of the other names  
11 that you have spoken about, but right now  
12 I am dead in the middle of a small group  
13 of people who have come together in the  
14 last few weeks and signed up for the  
15 mission to turn this thing around and I  
16 can tell you that I have been doing it  
17 around -- without three or four hours  
18 worth of sleep for the last few weeks just  
19 to do that. I happen to believe we have  
20 got a shot at that. We met Walt Banks  
21 (phonetically) on Wednesday. We told them  
22 what our plan was. We had a very detailed  
23 implementation plan behind the financials  
24 and I fundamentally believe that will come  
25 to be. I have to believe it. I have to

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believe it for you. I have to believe it for my own confidence because every day I have to get up and go back to work there again and I will do that.

Finally, filing for bankruptcy was probably one of the most difficult decisions that an executive team makes. It's not a situation that you arrive at because you planned to get there. It's not a situation that as some of you have pointed out that you get there just because of forces outside of your control. Either you get there because you interpreted those forces incorrectly and you have made decisions and judgments that have contributed to the position you find yourself in now. That is a fact. What is also a fact is that if you just freeze solid, you will not get out of that position and everybody will lose everything.

THE AUDIENCE: We already have.

MR. CAREY: Absolutely truth and I understand that. So I resonate with that

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1  
2 feeling that emotion and that pain 100  
3 percent. Filing bankruptcy does from a  
4 business point of view bring certain  
5 protections with it and it does give you  
6 flexibility, but in this particular case  
7 it also brought with it a very painful  
8 result with the severance payments and  
9 benefits to each of you. I know because I  
10 have talked to many of you one on one.  
11 You're my friends, you're my colleagues  
12 and you will always be that. This was  
13 monies that you were counting on to bridge  
14 yourself until you got re-established.  
15 It's an outcome that we continue to search  
16 for a way to provide some relief to.  
17 Beyond just telling you, go line up with  
18 the rest of the creditors and put your  
19 claim in, it's not a satisfactory answer,  
20 believe me. I understand that.

21 Unfortunately to date we have not  
22 been able to find any precedent for that  
23 or find the basis that the Court would  
24 actually honor such a relief because they  
25 look and when another gentleman mentioned

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1  
2 earlier in the day the creditors, the  
3 owners are creditors, the share owners are  
4 creditors, so that statement is all  
5 inclusive of the lenders. Our business  
6 partners would have sold us equipment to  
7 technology, our employees and of course  
8 the shareholders. So they all fall into  
9 that very broad label called creditors.  
10 If there was something we could do from a  
11 legislature effort for these concerns to  
12 make sure that people's basic needs are  
13 cared for, whether it's through some  
14 flexibility in the bankruptcy laws or  
15 whether it's from some other form of  
16 legislative relief with regards to  
17 unemployment to our legislative folks  
18 here, that would be something that  
19 obviously the decisions that I and my  
20 colleagues have to make from business  
21 policy would make our life a lot easier to  
22 be very honest with you.

23 I wanted to share just an insight  
24 or two with you as to kind of where we are  
25 on things. We have developed a plan that

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1 we will file close to June 1st. We have  
2 120 days to file that plan from January  
3 29th. That will lay out how we intend to  
4 bring this company out of bankruptcy.  
5 Fundamentally, we believe that the  
6 greatest value for everyone involved will  
7 be if we keep that 200 point global  
8 network intact. There's not another one  
9 like it. There will not be another like  
10 it, will not be finance like it in our  
11 lifetime. It takes too much money to do  
12 it. Nobody is going to take that kind of  
13 gamble, particularly looking at the  
14 situation at hand, not only with us, but  
15 everybody in the telecommunications  
16 industry today. So we have built the plan  
17 around that idea. Now that results in  
18 additional requirements that we have to  
19 do.  
20

21 The fact is this company was  
22 launched at a point in time when this  
23 entire telecommunication sector was just  
24 blowing out. It was just incredible with  
25 the Internet and everything that was

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1  
2 happening. It was forecasted by the day.  
3 We are sitting here right now to be  
4 roughly a six-billion-dollar business.  
5 That will not happen. It is, however, a  
6 two-and-a-half to three-billion-dollar  
7 business as we sit here. We currently  
8 still do have 85,000 customers sending to  
9 us revenue checks roughly to the tune of  
10 about \$2.7 billion. That is an asset.  
11 Between those customers we have still  
12 expressed confidence in us and that  
13 network, which will not be replaced, is  
14 the making of a new plan. The painful  
15 part that we have to go through to make  
16 that all work is that we have to take a  
17 company that was being built to be a  
18 six-billion-dollar company and change the  
19 cost structure to get that business to be  
20 two-and-a-half billion to a  
21 three-billion-dollar company.  
22 What does that mean? It translates  
23 into some pretty bigtime decisions. In  
24 particular, if you want to keep that  
25 global network intact, decisions on real

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1  
2 estate, whether they be local or other  
3 points in the world, we have to make  
4 decisions to cut those first before we  
5 make decisions to cut the variable cost  
6 which are people and people-related  
7 because what customers do buy from us is  
8 service, that's not fiber. It's people --  
9 it's people which make it happen. So in  
10 order to keep that network in place, we  
11 need people. We need people to keep the  
12 customers in place. We need the -- to  
13 collect those revenues. So that's the  
14 logic we're doing.

15 The other thing that we have made a  
16 decision on, there are some pieces of  
17 property parts we have that we will  
18 market. We have a cablesip business that  
19 was important to us when we were building  
20 that network subsidiary. It is not so  
21 important to us. It is not strategic to  
22 us now. We have that up for sale. We  
23 have offers. We have other parts of -- we  
24 have the UK, UK international network  
25 which is a substantial piece of business,

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1  
2 local government there, foreign service  
3 office. That property is very marketable  
4 and we will sell that as well, but what we  
5 have to maintain is that two point billion  
6 network. That's the only network roadwork  
7 we can see to put that business plan  
8 together that will allow some value to be  
9 achieved to put some value back to the  
10 employees, whether you be current or  
11 former and put me in a position and one  
12 day to give me a call for you to come join  
13 me.

14 These are not times that any of us  
15 planned for. It's a very difficult  
16 situation. There's a couple issues here  
17 that were raised that were very legitimate  
18 and I want to just maybe provide a bit of  
19 comfort on those, too. Particularly those  
20 who have a pension with Frontier, now  
21 Citizen, to that issue specifically, take  
22 some comfort out of the fact, it is just a  
23 procedural matter with regard to why those  
24 funds have not transferred. Take some  
25 comfort out of the fact that that's what

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1  
2 is known as a qualified plan. Those  
3 resources, those dollars, though  
4 investments are frozen, cannot be touched  
5 by anybody. It is all subject and  
6 controlled by the Court at this point and  
7 it is that due process through the Court  
8 that will protect your security for your  
9 loved ones and your future relatives to  
10 that pension. That pension will transfer.  
11 Nobody has ever been able to touch that.  
12 So take some comfort out of that fact that  
13 the way that the laws in this country are  
14 established and in the State, in  
15 particular under the IRS, etc., that  
16 there's no -- nobody, and I said nobody,  
17 that can access those funds in any way  
18 that would mitigate their ability to  
19 provide for what their intended purpose  
20 was which was to secure your future as you  
21 have gone through life. So just to take  
22 that issue and you can verify that through  
23 your own fact basis and I think you will  
24 come up with the same conclusions.

25 So as I walk away from you today, I  
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1  
2 want to say thank you to Congresswoman  
3 Slaughter for putting this event together.  
4 I have sat there and I have listened. I  
5 did hear a few new things today that I  
6 will take back to this small group of  
7 leadership members who are trying to put  
8 this business back on solid foot and  
9 trying to substantiate positions to make  
10 sure you all stay in this community, to  
11 make sure there is opportunity, hopefully  
12 in the future not only for you not only  
13 with Global Crossing, but because we have  
14 created more vibrant economy here in this  
15 area and that people stay here because  
16 there are jobs here and other companies to  
17 work for.

18 So it was one question in the back.  
19 I really didn't intend to take too many  
20 questions, but since your hand was raised.

21 UNIDENTIFIED WOMAN: I would like  
22 to know why paperwork was turned over to  
23 the Pension Benefit Guaranteed  
24 Corporation?

25 MR. CAREY: The Pension Benefit

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1  
2 Guaranty Corporation is actually a  
3 government agency that monitors all of the  
4 transfers of any matters related to  
5 pensions and to make sure that, in fact,  
6 the system that the public policy is  
7 established in this country remains  
8 intact. So all of the filings that we  
9 have had to make with PGEC have, in fact,  
10 been made and as I said, it's a procedural  
11 review. So that has been done.

12 UNIDENTIFIED PERSON: And then they  
13 will be turned over to the Federal --

14 MR. CAREY: I believe in -- and I  
15 can't -- I don't want to go on record here  
16 with this regard, but there are several  
17 other procedural steps one gets through,  
18 GCE, that gets through, but there's that  
19 procedural step.

20 In closing, I appreciate your  
21 courage. I'm duly impressed, although I  
22 have to admit I'm not surprised  
23 particularly by my colleagues who you have  
24 worked with before. I've seen this kind  
25 of behavior before. I would have expected

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1

2

nothing less before me. Believe me, my

3

passion is with you.

4

(Whereupon last sentence was unintelligible due to

5

noise in audience.)

6

CONGRESSWOMAN SLAUGHTER: I want to

7

assure you that our office is on the

8

pension issue and we are trying to

9

expedite the exchange over to Citizen's.

10

I hope that as restructuring takes place

11

and a lot of corporations in the US, they

12

will take a good look at seeing the

13

difference between CEO salaries and what

14

people were paid and as I said earlier, if

15

you look through so much of this through

16

the auditors on all aspects of what has

17

happened here, you really see what is

18

deregulation run amok and I think that

19

Congress is going to take some action to

20

try to solve some of that.

21

And I want to say to our visitors

22

from out of town how happy we are to have

23

you here and to assure you that this is

24

not the usual corporate culture in

25

Rochester. That corporations like Kodak

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1  
2 and Xerox and others, although they have  
3 gone through some bad times, they've  
4 always kept their agreements with their  
5 employees. Again, let me say to you that  
6 you have my undivided attention and this  
7 is the number one issue in our office  
8 here, both here and in Washington. We are  
9 delighted to get this today. We want to  
10 hear from anybody else who has anything  
11 else they want to offer us and we will get  
12 back to you and keep you informed as we go  
13 along.

14 I'm lucky to have such good  
15 colleagues working. Would you all like to  
16 say something? We appreciate -- before I  
17 go, I want to let you go, but let me just  
18 thank St. Mary's for their extraordinary  
19 hospitality and wonderful, wonderful work  
20 they do. They have been absolutely  
21 wonderful and they have given us this  
22 free, by itself is remarkable and we want  
23 to thank them from the bottom of my -- our  
24 hearts for it.

25  
SENATOR DOLLINGER: Two quick  
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1  
2 things. Once again to thank Congresswoman  
3 Slaughter for her leadership on this  
4 issue. Two, we have written to  
5 Comptroller of the State of New York, Carl  
6 McCall, because the State of New York  
7 owned about \$68 million of Global Crossing  
8 stock. He has told me and in conversation  
9 that he has a group of lawyers who are  
10 keeping their eye on the bankruptcy  
11 question. When someone asked about the  
12 investigation of bankruptcy -- I think the  
13 Comptroller in his obligations as the  
14 holder of the State Pension Fund and  
15 investor of those funds is keeping a very  
16 close, close eye on them.

17 Two, I wanted to mention my  
18 colleague, Joe Robach, he was co-author  
19 with me on several letters that we wrote  
20 to the Attorney General and to the  
21 Comptroller and I know he is out of town  
22 and could not be here today, but wanted to  
23 be.

24 And the last thing I'll say is  
25 this, it seems to me that there is a story

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1  
2 about American capitalism that really is  
3 being told in this room that we need to  
4 all keep our eyes on. When Rochester  
5 Telephone came to me in the mid 1990s and  
6 said we would like to get involved in the  
7 business of long distance telephone sales,  
8 we would like to branch out and be able to  
9 buy other operations across this country,  
10 the discussion was about the importance of  
11 Rochester Telephone to this community. I  
12 can remember conversations with my friend,  
13 Bob Flavin about what should the  
14 government's position be, the State  
15 government's position be with respect to  
16 the future of Rochester Telephone and we  
17 went along with the negotiation of  
18 Frontier because it seemed to hold promise  
19 for the people that work for Rochester  
20 Telephone. And then when the questions of  
21 Global Crossing came up there were other  
22 issues about what the next step should be  
23 and I would just tell you that there were  
24 a lot of representations made to us at  
25 that time, made to members of the State

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2 Legislature, made to members of Congress  
3 and it seems to me that we as your members  
4 of legislature, elected legislature, have  
5 obligation to go back, look what was told  
6 to us, find out why those promises, why  
7 those visions did not come true and then  
8 quite frankly, hold people who made them.

9 We live in a capitalistic society.  
10 Sometimes people say don't worry, business  
11 will be great in the future. I understand  
12 that. I think we all do, but if instead  
13 we were told things that turned out not to  
14 be true at the time we were told them,  
15 then that raises entirely different  
16 questions. If we are going to have a  
17 system in which people buy and sell stocks  
18 and people buy and sell assets like  
19 telephone companies, it seems to me the  
20 most critical things we have to do is to  
21 insure that there is a fair and even  
22 playing field. No one at the top should  
23 know something that those at the bottom  
24 don't know and I can only tell you when we  
25 do get -- I want to tell you when we do

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get to the bottom of all this and if there's such disparity between what people at the top and bottom knew, I give you my view and I think I give all the elected officials', we will do all we can to rectify. Thank you.

ASSEMBLYWOMAN JOHN: Again, I just want to thank all of you for being here because this has been a very valuable learning experience for me today to gather the information from you, who worked at the company, from you who are former employees that have had correspondence that not all of us have seen. This is given -- has given us a lot of information about what has gone on here and how you have been treated. I think that the Congresswoman and Senator and I have always stood with the working men and women of this community, especially with our friends at CWA, through tough times and through good times and we will be with all of you through this.

I hope the predictions about the  
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1  
2 future of this company turn out to be  
3 true. I hope that we can all feel that we  
4 want to be a part of the future of this  
5 company. But right now the most important  
6 thing that we can do is to make sure that  
7 our community is protected and we will be  
8 working to do that and thank you all for  
9 taking the time to come and to share some  
10 really painful stories with us. Thank  
11 you.

12 (Whereupon the Public Hearing adjourned at 2:48  
13 p.m.)

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2                    STENOGRAPHER'S CERTIFICATION

3        STATE OF NEW YORK )  
4        COUNTY OF MONROE )

5                    I, JANET TADDEO, being a Official Shorthand  
6        Reporter in the County of Monroe, State of New York,  
7        do hereby certify that I reported in Stenotype  
8        Shorthand the proceedings in the above-titled matter,  
9        that the foregoing pages were typed under my direction  
10       and control, and constitute a true, accurate, and  
11       correct record of those Stenotype Shorthand notes.

12                   I further certify that I am neither attorney  
13       or counsel for any of the parties, nor a relative or  
14       employee of any attorney or counsel connected with the  
15       action, nor financially interested in the outcome of  
16       the action.

17  
18  
19                   

20                   JANET TADDEO

21  
22        Dated at Rochester, New York  
23        this 21<sup>st</sup> day of March, 2002

24  
25                   *Executive Reporting Service*  
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Mr. GREENWOOD. Yes. The gentlelady's statement and the document that she has presented to me, the transcript of the hearing that she held, will become a part of the record.

[Additional statements submitted for the record follows:]

PREPARED STATEMENT OF HON. W.J. "BILLY" TAUZIN, CHAIRMAN, COMMITTEE ON ENERGY AND COMMERCE

Thank you Mr. Chairman. I've said on a number of occasions that this Subcommittee over the past year truly has done a tremendous public service with its dogged investigative work into corporate misconduct—beginning with Enron and Andersen and extending through to the actions of Global Crossing and Qwest, which we will continue to explore this morning. I believe members on both sides here appreciate what they've learned from this good work.

One important lesson that these investigations have revealed for us is how a handful of key leaders of a big corporation—the CEOs, CFOs, Presidents and Board Members—really set the tone for those below them.

Last week we heard from a number of executives, at both Global Crossing and Qwest, who were charged with making deals happen. And they did make them happen—sometimes, as we learned, with an implicit, if not explicit, effort to deceive.

Look at what we've been unraveling in this investigation. It's a story of deception and betrayal of public trust. How else can we explain Global Crossing pursuing optical capacity sales and swaps that its own employees couldn't justify? They did so out of desperation to make the numbers, as we have learned, when the market for expanding optical capacity was drying up.

Deception and betrayal of the public trust—how else can we explain some of Qwest's dealmaking? Here's a company that entered into long-term capital leases with illegitimate side agreements—winks and nods—that these deals really weren't what Qwest would report to the accountants for the purpose of booking income. These were sham deals that both sides knew were being done for one purpose only—to make quarterly numbers.

The people who put these deals together were not rogue employees. We learned they were responding to, and working within, an atmosphere created from those at the top. This morning we have those who set the tone before us. And I look forward to learning from them directly about the atmosphere they set at these two companies.

Congress, the SEC and the Department of Justice, as you also note Mr. Chairman, all have a duty to help restore trust in the marketplace when it has been violated. So far, I believe the facts we've uncovered in our investigation show the SEC has been on the right track in its recent investigations. Yet some fail to understand this duty. Joseph Nacchio, the former Chairman and CEO of Qwest, who is before us today, reportedly told the press that the SEC's investigation of Qwest was driven by "global corporate McCarthyism" and "Enronitis." I wonder what Mr. Nacchio will say today, now knowing what we've uncovered and Qwest's own admission that it must restate its prior financial statements by over one billion dollars.

Mr. Chairman, we should remember that those who believe most strongly in free markets should be most outraged by deceptive and fraudulent behavior that undercuts trust in free markets. These poisonous acts—whether in the corporate boardroom or the boiler room—violate the trust that is necessary for a marketplace to flourish in a free society. We should encourage rules and actions that help to maintain this trust.

Thank you again Mr. Chairman, and I look forward to the testimony.

PREPARED STATEMENT OF HON. JOHN D. DINGELL, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF MICHIGAN

Mr. Chairman, thank you for continuing these important hearings on corporate accounting fraud and misdeeds. The shenanigans by some of the country's largest corporations and their accounting firms, and the resulting bankruptcies, have hurt many innocent workers and investors. The American people have lost confidence in the stock market and in corporate America, and they have lost *billions of dollars* in savings and pension plans. We will hear from just two of those Americans today, but their experience can be multiplied by a million or more.

We are also going to hear today from the executives who ran two of these corporations: Qwest and Global Crossing. They are the people at whose feet the proverbial buck must stop. They are the ones that set unrealistic revenue and growth goals for their employees in 2001 and berated or fired them if they didn't make those

goals. "I do not want to hear about how your part of the business is just going to continue to erode when we meet next week," Global's head of sales ordered his subordinate. "I want to know what you guys are going to do to turn it around—starting immediately." Documents from last week's and today's hearing show they are the ones who knew their revenues could not keep up with projections without these swaps, but didn't bother to inform their investors. These documents also show the executives are the ones who made illegal side deals—hidden from the accountants because they could not book all the revenue up front if these deals were known.

We have read the e-mails in which these employees acknowledge that the swaps of optical capacity are being done just to meet the numbers. "This swap crap is going to kill us in the long run," a Global Crossing employee wrote. "The sales folks don't know what exactly they're getting and product guys haven't figured out what to do with those assets." Many of those before us today are the ones who benefitted the most from the high stock prices. They are the ones who set a corporate tone that put numerical growth over all else and rewarded those who achieved that growth, no matter what. And they continued their push in the face of a tumbling world economy and the implosion of the dot-com phenomenon.

To rebuild confidence after this sort of debacle, the new management at these companies will need to clean house and instill a new culture. Congress and the public will support those efforts, so long as they are vigorous and effective. Investors and regulators cannot be expected to trust companies that do any less.

Mr. GREENWOOD. The Chair then calls forward our first panel, Ms. Lenette Crumpler, from Frontier, a citizens company. She is from Rochester, New York. Welcome. Good morning. I believe your seat is the one to the right there. Thank you.

And also, we have Ms. Paula M. Smith, a consultant and former Qwest employee. She is from Denver, Colorado. Is Ms. Smith with us? Good morning, and welcome. Thank you for joining us this morning.

And if the staff would assist the ladies with their microphones, so that they are positioned where they should be, and they are familiar with how to operate them.

And while that is happening, let me share with our first panel of witnesses that I think you are aware that this is—the committee is holding an investigative hearing, and when we do that it has been our practice to take testimony under oath, and ask if either of you have any objections to giving your testimony under oath. I see that neither of you do.

I would also advise you that pursuant to the rules of this committee and the rules of the House that you are allowed to be represented by counsel, if you choose. Do either one of you wish to be represented by counsel this morning? Okay. You haven't brought attorneys with you?

Ms. SMITH. I have some attorneys, but I am fine.

Mr. GREENWOOD. Okay. You don't need—if you need them at any point, and I can't imagine that you would, you just come—just let us know that.

All right. If you would rise, then, and raise your right hand, I will swear you in.

[Witnesses sworn.]

Let me just assure you that, ladies, you should be relaxed. You are among friends. You are not in the hot seat this morning.

Okay. And I think we are going to start with Lenette Crumpler from Rochester, New York.

Ms. CRUMPLER. Yes.

Mr. GREENWOOD. Good morning. Welcome. We are delighted that you are with us. Do you have an opening statement that you would like to make?

**TESTIMONY OF LENETTE CRUMPLER, FRONTIER, A CITIZENS COMPANY; AND PAULA M. SMITH, CONSULTANT AND FORMER QWEST EMPLOYEE**

Ms. CRUMPLER. I want to thank you, Mr. Chairman, and members of the subcommittee, for holding the hearings and letting me tell you what happened to some of the Global Crossing employees because of the mismanagement and corporate greed of people running the company.

I grew up in a small rural town called Williamson, New York. While riding on the school bus 1 day I overheard the conversation of a foreign exchange student from Thailand. He said, "In America, I cannot tell who is rich or poor." Now I was only in the third grade, and I asked myself two questions. What does he mean? And why does he say that?

I simply couldn't figure it out. For some strange reason, his comments always stayed buried in my mind. It was not until my fifth grade study in American history and our presidents that I learned about the presidency of Theodore Roosevelt and finally found the answer to my two questions.

Despite his wealth, Theodore Roosevelt became a President who saw himself as a steward of the people. He didn't like what he saw going on in corporate America where the rich robber baron owners of companies were becoming billionaires off the back of the working poor. This President envisioned a greater America—an America where all people could prosper.

He battled with the barons of corporate America in the early years of the 20th century. He used his executive powers and championed the passage of new laws such as antitrust, monopoly, child labor laws, etcetera. Because of the vision of this President, the working poor class Americans became the working middle class of America.

This is what makes America different from other countries. From that moment on, I realized although I am a descendent of slaves, I am so blessed to have been born in the greatest country on the earth—the United States of America, a place where impossible dreams can become reality.

This is my story. I have worked 31 years at the phone company. I lost my entire 401(k) money—\$86,000—when Global Crossing went bankrupt. I raised two children all by myself, and I never asked the system for one penny because I didn't have to. I worked for Frontier, formerly Rochester Telephone, which was a family oriented company. All you had to do was come to work on time and give the company an honest, full day's work, and you would always have a job. The odds of a single mother accomplishing such a feat are astronomical.

I accomplished the near impossible. To me, \$86,000 to supplement my pension was like having a million dollars. I was so proud of myself. I thought for sure with Global Crossing buying Frontier I would reach my goal of \$100,000, so that my retirement years would be comfortable years, and I even could leave something for my children.

That is why I held on, believing the statements that Global Crossing executives made when the stock was failing. Tom Casey sent an e-mail telling us the company was funny funded for 2 years

and could weather the storm. Joe Clayton sent an e-mail saying that The Wall Street Journal was wrong about Global Crossing's debt.

With information like that, I knew I had another three to 5 years to work, so why not hold on to the stock? It will eventually go back up. Our phone company stock had always been rock solid. How was I, or any of us, to know that no longer were there men of integrity at the helm of our 100-year old phone company?

Instead, our leaders were men of gluttonous greed who told shareholders to hold on while they were unloading their stock options and bailing out fast, because they knew something we didn't know. The company filed for bankruptcy in January 2002, leaving us shareholders holding the empty bag.

Now, sadly, because I believed all the lies of the executives of Global Crossing, I have now lost my entire retirement money. Shattered are my dreams of having a modest retirement in Florida in a lovely retirement community called The Villages, where I had visited and had looked at a model home. Thanks to Global Crossing, that will be a dream unfulfilled. I no longer dream of retirement. I now worry whether I will be able to keep my job, or will I be the next one laid off. For if I get laid off, I will surely lose the house that I now own in upstate New York.

I am heartbroken, and I am hurt, because I did all the right things. I was truly an idealist, a dreamer, an achiever, even when great astronomical odds were against me as a single mother to amass that kind of money. Now this is what happened to me because I believed in the system, and the system let me down.

So here we are again in the 21st century, 101 years after the start of the presidency of Theodore Roosevelt. Now new robber barons, such as Gary Winnick of Global Crossing, even more ruthless than their predecessors, have shown their ugly faces in corporate America. This time, however, their greed is even colder, crueler, and more calculated than ever before.

They have literally stolen the wealth of the working middle class Americans—their own employees—right out from up underneath their noses before they even knew what hit them. Their greed is of an immoral, gluttonous nature. After cleverly succeeding in transferring the wealth out of the pockets of the working middle class directly into their own pockets, these 21st century robber barons have the nerve to seek protection through bankruptcy laws and, at the same time, present the illusion that their companies just needed to reorganize to survive.

These Global Crossing robber barons know full well that it was their gluttonous thievery that caused this company to go under. They are hiding behind bankruptcy laws while unloading their debt, so that they can start all over again with a clean balance sheet.

Then, to add insult to injury to the working middle class, Global Crossing/Frontier employees, after stealing our 401(k) life savings, under the false pretense of bankruptcy reorganization, they now are laying us off in record numbers. Having cooked the accounting books, these robber barons successfully collapsed the company into bankruptcy. Simultaneously, they have collapsed and shattered the dreams of many working middle class people and their families.



This is why I am here today speaking on Capitol Hill. I have shared with you my shattered dreams, but this isn't just about me. So many working, middle class American dreams have been shattered. I would like you to hear what they have told me.

"I have lost my job, and I can't find work here, so I will have to move to another state to look for work." "I have no more money. I have lost it all. Now I must sell my beloved home." "My child has cancer, and I have no health care. What shall I do?" "I am 72 years old. Who will hire me?" "I am 47 years old, and I shall have to work now until I am 75 or 80 years old." "I am 53 years old. I am too old to start over and recoup my losses."

"It didn't have to be this way. I believed in the system, and the system let me down. I have lost everything. Now my children won't be able to go to college." "Thanks to Global Crossing, I will have to work another 10 years to try to save money, and I am not a healthy person. I take eight pills a day, and I am tired."

"I have lost \$500,000. I worked so hard to save that money in my 401(k), and I should be retired now. But I can't afford to." Even a dentist said to me, "What is happening here with corporate greed is the domino effect. When people get laid off in great numbers and can't find work, they have to move away to find work. So even we local doctors and other businesses pay in lost customers."

Yes, people's lives have been devastated. They have lost their new homes. They have lost their ability to send children to college. They have lost their medical insurance. They have lost their retirement savings. They have lost their pride, their security, their self-confidence.

They have lost their faith in the American dream—all because of the greed and mismanagement of individuals who should have been looking out for the well being of the shareholders and the investors of the company instead of lining their own pockets. The officers of Global Crossing have left thousands of employees, stockholders, and investors holding an empty bag.

Now is the time for this government to clamp down hard on corporations, especially those in charge at Global Crossing who led the company to ruin, taking many hopes and dreams with it. It is the responsibility of this government to restore the confidence of the working, middle class Americans who only desire to continue working so that all can prosper—both management and the workers.

There has been a lot of talk about heroes over the last year. Our firefighters are recognized as heroes. Our police officers are recognized as heroes. But those of us who get up each and every morning, whether we are tired or energized, whether we are sick or well, whether we love our job or dislike it, those of us who go to the office, or the factory, or the warehouses, we are heroes, too.

We will never be given a parade or a medal, but we are heroes to the families who depend on our income for food and shelter. We are heroes to those who rely on our employment to obtain health care. We are heroes to those who depend on our tax contributions to obtain needed services.

Please don't forget these heroes. Please don't allow these robber barons to victimize our everyday and unsung heroes by destroying their dreams.

Please have the vision and the courage shown by the visionary, President Theodore Roosevelt, "Speak softly, but carry a big stick." Please, on behalf of all of the Frontier and Global Crossing victims, look hard at the management of Global Crossing.

Please use your powers to effectively punish those who have committed these crimes. Please seize the assets and return those assets to the rightful owners. And, please, legislate whatever new laws are necessary, so that such abuses never, ever occur again in America.

Thank you.

[The prepared statement of Lenette Crumpler follows:]

#### PREPARED STATEMENT OF LENETTE CRUMPLER

Thank you, Mrs. Slaughter, for your kind introduction. And thank you, Mr. Chairman and members of the Subcommittee for holding this hearing and letting me tell you what happened to some of Global Crossing's employees because of the mismanagement and corporate greed of the people running the company.

I grew up in a small rural town, Williamson, New York. While riding on the school bus one day; I overheard the conversation of a foreign exchange student from Thailand. He said—"In America... I cannot tell who is rich or poor." Now, I was only in the third grade, and I asked myself two questions: What does he mean? And why does he say that? I simply couldn't figure it out. For some strange reason, his comment always stayed buried in my mind. It was not until my fifth grade study in American History and our presidents that I learned about the presidency of Theodore Roosevelt and finally found the answer to my two questions.

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This is what makes America different from other countries. From that moment on, I realized that, although I am a descendent of slaves, I'm also blessed to have been born in the greatest country on the earth... the United States of America: a place where impossible dreams can become reality.

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I accomplished the near impossible. To me, \$86,000 to supplement my pension was like having a million dollars. I was so proud of myself. I thought for sure with Global Crossing buying Frontier, I would reach my goal of \$100,000 so that my retirement years would be comfortable years, and I even could leave something for my children. That's why I held on, believing the statements the Global Crossing executives made when the stock was failing. Tom Casey sent an e-mail telling us the company was fully funded for two years and could weather the storm. Joe Clayton sent us an e-mail saying that Wall Street Journal was wrong about Global Crossing's debt. With information like that, I knew I had another three to five years to work... so why not hold onto the stock? It'll eventually go back up eventually. Our phone company stock always had been rock solid. How was I or any of us to know that no longer were there men of integrity at the helm of our 100-year-old phone company? Instead, our leaders were men of gluttonous greed who told shareholders to hold on while they were unloading their stock options and bailing out fast, because they knew something we didn't know. The company filed for bankruptcy in January of 2002, leaving us shareholders holding the empty bag.

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- "I have lost my job and I can't find work here, so I will have to move to another state to look for work."
- "I have no more money—I have lost it all, now I must sell my beloved home"
- "My child has cancer, and I have no more health care—what shall I do?"
- "I am 72 years old—who will hire me?"
- "I am 47 years old, and I shall have to work now until I am 75 or 80 years old".
- "I am 53 years old—I'm too old to start over and recoup my losses."
- "It didn't have to be this way—I believe in the system and the system let me down—I've lost everything...now my children won't be able to go to college".
- "Thanks to Global Crossing I'll have to work another 10 years to try to save money and I am not a healthy person...I take 8 pills a day and I'm tired."
- "I lost \$500,000 dollars I worked so hard to save that money in my 401(k) and I should be retired now...but I can't afford to."
- A dentist said, "What is happening here with corporate greed is the domino affect. When people get laid off in great numbers and can't find work, they have to move away to find work. So even we local doctors and other businesses pay in lost customers."

People's lives have been devastated. They've lost their new home. They've lost their ability to send their children to college. They've lost their medical insurance. They've lost their retirement savings. They've lost their pride, their security, their self-confidence. They've lost their faith in the American Dream. All because of the greed and mismanagement of individuals who should have been looking after the well being of the shareholders and investors of the company instead of lining their own pockets. The officers of Global Crossing have left thousands of employees, stockholders and investors holding an empty bag.

Now is the time for this government to clamp down hard on corporations...specifically those in charge at Global Crossing who led their company to ruin, taking many hopes and dreams with it. It is the responsibility of this government to restore the confidence of working class Americans who only desire to continue working so that all can prosper—both management and the workers.

There has been a lot of talk about heroes over the last year. Our firefighters are recognized as heroes. Our police officers are recognized as heroes. But those of us who get up each and every morning, whether we are tired or energized, whether we are sick or well, whether we love our job or dislike it, those of us who go to the office, or the factory, or the warehouse, we are heroes too. We'll never be given a parade or a medal. But we are heroes to the families who depend on our income

for food and shelter. We are heroes to those who rely on our employment to obtain health care. We are heroes to those who depend on our tax contributions to obtain needed services. Please don't forget these heroes. Please don't allow these robber barons to victimize our everyday and unsung heroes by destroying their dreams.

Please have the same vision and courage shown by the visionary, President Theodore Roosevelt ... "Speak softly but carry a big stick". Please, on behalf of all of the Frontier and Global Crossing victims, look hard at the management of Global Crossing. Please use your powers to effectively punish those who have committed these crimes. Please, seize their assets and return those assets to the rightful owners. And, please, legislate whatever new laws are necessary so that such abuses never, ever occur again.

Thank you.

Mr. GREENWOOD. We thank you, Ms. Crumpler, for your most eloquent statement. Thank you for being with us.

Ms. Smith, your turn.

#### TESTIMONY OF PAULA M. SMITH

Ms. SMITH. Thank you. My name is Paula Smith.

Mr. GREENWOOD. If you would like, you can push that microphone up a little bit.

Ms. SMITH. Okay. Can you hear me now?

Mr. GREENWOOD. Yes, it is flexible. Go ahead. Wherever you are comfortable with. That is good.

Ms. SMITH. Okay. I would like to tell a story, and it is a story that is not unlike many thousands of other stories of people and families who have spent some of the best years of their lives at Qwest, formerly US WEST, and before that the original Bell operating company we all knew as Mountain Bell, or we all in our community called it Ma Bell.

I started working for Mountain Bell in November 1980 and stayed there as a full-time employee through its divestiture when it became US WEST, and then through its merger, in June 2000, when it was taken over by Qwest. And then, in June 2001, I was laid off, along with thousands of other employees, many who had spent decades as employees of this company. I had 20 years. Some of them had 30, 40 years with the company.

I had spent those 20 years as a full-time employee. These were perhaps some of the prime productive working years of my life. During those years, I also got married, and I had my two children—two girls, Kelsey, 14, and now Ali, who is 12.

As far as my investments in the company's 401(k) plans were concerned, of course, I was anxious to start putting money into the plan as early as I could, voluntarily deferring income from every paycheck to save toward retirement and the children's college funds. For me, it was a slow and deliberate building approach.

And although it meant making some sacrifices and giving up on some of the material things we would have loved to have had, at least I knew, and we knew, we were building toward our futures, and at least I knew we would be in a position to open doors for our children, so they could pursue any of the educational dreams or opportunities they are so entitled to have in their futures.

It was really fun getting my statements from my 401(k) plan every quarter. I really looked forward to it. I could see the growth. It was so rewarding. I was so committed to this.

But, of course, the picture now is very bleak for me and many thousands of others who invested in the 401(k) plan at Qwest. And

based on my last retirement statement from the Qwest 401(k) plan—and I would like to just make a small correction. I have lost a little over \$230-, maybe close to \$240,000 in my retirement money I once had in my Qwest stock, and that is all gone.

People often ask me why I kept putting my money into the Qwest stock plan and didn't take out whatever of it I could, even after the stock began to fall. And that is a really hard question to answer for so many of us, as we look back. Of course, a lot of my Qwest investment couldn't be sold. Under the rules of the plan I could only sell stock that I had bought with the money I myself put aside from my salary.

And then, until they changed the rules in April of this year, I was too young to be allowed to sell any of the stock which the company had bought with its matching contributions. But the fact is: I didn't sell, even the part I could have, and that was because I believed in the company, and I believed what the company's management said about the future health and potential and well being of Qwest. They said it was strong, and they had a tremendous potential.

Mountain Bell, and then US WEST in former years, had been a wonderful company, a great employer in the community, a great community citizen throughout Colorado and the Rocky Mountain region for up close to 100 years. And then, after it became Qwest, management was so positive.

When we had a kickoff meeting on June 30, 2000, at the Pepsi Center in Denver to celebrate the merger, Joe Nacchio said that the Qwest stock, by the end of the year, would be selling at \$75 a share by the end of the year. And, of course, we, the employees, believed him.

And then, long after the stock began to fall, many of us still couldn't believe that the new leadership could come in and destroy, in such a short period of time, really less than 2 years, all that we have built as a body of employees over that 100 years. We were no dot com. We were no startup company coming and going in the blink of an eye.

We had a tremendous infrastructure. We had a tremendous history. We provided a universal telephone system to everyone. We were regulated by the Public Utilities Commission, the PUC. How could anyone ever have imagined that a company with over 60,000 employees and a 100-year old history could be taken down in such a short period of time? What a shock. Everybody's head spun. It was—we all sat there in disbelief, and, consequently, many of us still held on to our Qwest stock investments.

So as far as my Qwest stock investments were concerned, this was, and always I had felt it was, my conservative stock. It was my safe utility stock. This was my secure investment.

I kept putting money into the company, because I believed in the company. And, of course, while I worked there I kept thinking that things would turn around. And even after I left, I kept thinking things would turn around until I started reading in the Denver newspapers what was really going on with some of the accounting practices. But by that time, the stark reality had hit me, as well as so many other people. And by then most of the value, a big chunk, and most all of my Qwest stock savings were gone.

I just wanted to bring up one experience I think is important to state—that as employees of Qwest, US WEST, and even as Mountain Bell, we were all required to uphold our corporate responsibility in the form of a type of training and certification that was called the Code of Conduct, Code of Business Conduct. We had to be trained on that, and we had to be certified through testing on our Code of Business Conduct.

And, basically, that involved the illustration that we knew what our corporate behavior was supposed to be, and that we knew that our responsibilities were to be honest and above board in our dealings with customers, the public, and our co-workers.

In that training, we were warned about the dangers of insider trading. And as a regulated utility, we understood that we were accountable for our actions in every way. A specific goal of this Code of Business Conduct certification was to ensure that we would protect our company from unscrupulous behavior, both inside and out of the company.

This was our corporate culture. We were trained in this every year, and we had to be certified in a Code of Business Conduct. But it seems that this Code of Business Conduct only applied to the employees and not necessarily to the executives who ran our company.

Even when we began to hear rumors that the new Qwest was flying a little higher and playing a little closer to the edge, we couldn't believe it could be true, what we were hearing could be true. We heard questions that were raised about Qwest's accounting practices, and we heard Joe Nacchio say that the people raising these questions just didn't understand contemporary accounting standards or practices.

And he kept referring to them as contemporary, or in some cases I remember contemporaneous. Though many of us didn't quite understand what that meant, we assumed he and the accounting people who ran our company did understand what contemporaneous accounting practices were. We wanted to believe in the honesty of our CEO and of the company to which we had given so many years.

I also had a pension plan at Qwest, but because I was let go so many years away from my retirement the value in that pension plan wasn't nearly enough to make up for what I have lost in my 401(k) plan. And as I had mentioned earlier, my two daughters, Kelsey and Ali—we are trying to assemble a new plan through which we will be able to put them through college in the next few years, and then after that possibly our own retirement.

But we really no longer know exactly how we are going to do that. The money I have lost in my 401(k) plan is exactly the money we had put aside through a slow, deliberate, and disciplined savings, and through really many sacrifices over the years.

I understand that Joe Nacchio will be testifying later today. And, really, I would like to congratulate him on taking—having taken such good care of his children. I have read about his children in the newspaper, and I know they go to private schools, and I am sure that they will have a tremendous opportunity to go to college, whatever future they wish to pursue. I really wonder if he would be willing to help me educate my children.

I believe Mr. Nacchio when he defied his critics and assured me that Qwest was strong and sound and positioned for the future. I wish I could still believe in the company I worked for for such a long time.

I know that I must do now whatever it is going to take to fight for my future and for the future and educational goals of my children. But the prime years of my working life were taken from me. I can never recover those years, those 20 years I had spent at Qwest. I am now 52 years old, and it is really the time and that precious life energy during the prime years of my life—I can't recover that time. I can't get those years back.

I understand that Congress is now beginning to look into new laws and provisions that will protect the assets for holders of 401(k) plans, and that is very good, especially if you are young and just beginning a 401(k) savings plan with a company. But for those of us in our forties or fifties or sixties, or even those of us in retirement or who are approaching retirement, those new laws would really be too late for us.

We need help now. We need at least some of our money back from those who deceived us and robbed us and robbed our children of their futures. Without a real remedy for restitution in the form of monetary returns, returns that we put in over so many years, my only hope now is to work full-time until I die. Right now I see no other alternative, unless there is some remedy for those of us who have suffered and those of us who have lost so much. We can't get those years back.

This is my statement and my testimony. And I really believe that my story illustrates and represents—is the story of so many thousands of other people and employees who have worked at Qwest, formerly US WEST, and even those who started with Mountain Bell.

I really thank you very, very much for this opportunity to tell this story. And I would be happy to answer any of your questions. Thank you.

[The prepared statement of Paula Smith follows:]

PREPARED STATEMENT OF PAULA SMITH, FORMER QWEST EMPLOYEE

My name is Paula Smith. I started working for Mountain Bell in November, 1980, and stayed on when Mountain Bell became US WEST and then when US WEST merged and became Qwest in 2000. I was one of thousands of employees who was laid off by Qwest in 2001, working my last day there on June 29, 2001. I started putting money into the company's savings plan as early as I was able to—I think, probably, all the way back to 1980, voluntarily deferring income from every paycheck to save toward my retirement. Based on my last retirement statement from the Qwest Plan, about \$230,000 of the retirement money I once had in Qwest stock is gone.

People ask me why I kept putting my money into Qwest stock, and didn't take out whatever of it I could, even after the stock began to fall. It's a hard question to answer. Of course, a lot of my Qwest investment couldn't be sold: under the rules of the Plan, I could only sell stock that I had bought with the money I myself put aside from my salary. Until they changed the rules in April of this year, I was too young to be allowed to sell any of the stock which the company had bought with its matching contributions. But the fact is, I didn't sell even the part I could have. That was because I believed in the company, and I believed what the company's management said about the future health and potential of Qwest.

Mountain Bell and then, US WEST, had been a good company, a good employer and a good and important part of the Colorado community for 100 years, and after it became Qwest, management was more positive than ever. When we had a kickoff

meeting on June 30, 2000 at the Pepsi Center in Denver to celebrate the merger, Joe Nacchio said that Qwest stock would be selling for \$75/share by the end of 2000, and we—the employees—believed him. Long after the stock began to fall, I still couldn't believe that new leadership could come in and destroy in only a few years all that we had built as a body of employees over that hundred years. We were no dot.com. We were no start-up company, coming and going in the blink of an eye. We had an infrastructure and a history, and we didn't believe that could be destroyed in such a short period of time. In fact, I always thought of my company stock investment as my conservative, safe stock—while I diversified the rest of my savings fund investment, I kept putting money into company stock because I believed that that was the secure choice. So while I worked there, I kept putting my money into company stock; after I left, I waited so long to think about selling it that, by then, most of the value, and a big chunk of my savings, were gone.

I was a salaried employee at Qwest, a technical writer. One of our duties every year was to take a course in corporate responsibility and integrity, and to certify to the Human Resources department that we had studied the materials and taken a test to show that we knew what our behavior was supposed to be, and understood our responsibilities to be honest and above-board in our dealings with customers, the public, and our co-workers. We were warned about the dangers of insider trading, and as a regulated utility, understood that we were accountable for our actions in every way. A specific goal of our Code of Business conduct was to insure that we would protect our company from unscrupulous behavior, both inside and out of the company. Our corporate culture was one of absolute concern for honor and good faith. Even when we began to hear rumors that the new Qwest was flying a little higher and playing a little closer to the edge, we didn't believe that could be true of our company. We heard that questions were raised about Qwest's accounting, and we heard Joe Nacchio say that the people raising questions just didn't understand contemporary accounting standards, and we believed Mr. Nacchio, because we wanted to believe in the honesty of our CEO and of the company to which we'd given so many years.

I also had a pension plan at Qwest, but because I was let go so many years away from my retirement, the value in that plan wasn't nearly enough to make up for what I've lost in my Savings Plan. My husband and I have two children, my daughters Kelsey and Ali who are 14 and 12 years old. We are looking forward to putting them both through college in a few years, and then, after that, to our own retirement. But we no longer know exactly how we are going to do that: the money I've lost from my 401(k) Plan is exactly the money that we had put aside, through slow, deliberate, and disciplined savings—what I liked to call the Turtle approach to savings—and some sacrifices, to pay for that. So right now, we are looking for Plan B.

I understand that Joe Nacchio will be testifying later today, and I'd like to congratulate him on having taken such good care of his children: I wonder if he is going to help me educate mine. I believed Mr. Nacchio when he defied his critics, and assured me that Qwest was strong, and sound, and positioned for the future. I wish I could still believe in the company I worked for for so long.

I know that I will do whatever it takes to fight for my future and for the best future I can make for my children, but the best years of my working life were taken away from me, and I can never recover those years. Qwest took 20 years of my productive working life away from me. I am 52 years old, and I can't get those years back. I can try to start building again, but I know that I simply cannot recover what I, and my family, lost.

I understand that Congress is talking now about enacting new laws and new protections for savings and retirement plans, but for those of us who are in our 50s, it is just too late—we need help now; we need at least some of our money back now; we need to rebuild our futures now. Without some help, my only plan now is that I will have to work until I die.

This is my statement and my testimony, but I believe that my story represents the experiences of thousands more.

Thank you for your attention, and I will be happy to answer any of your questions.

Mr. GREENWOOD. Thank you, Ms. Smith. We thank you both for your poignant and personal testimony, and for your courage in coming here. We know that this isn't the easiest thing to do, but we thank you for being with us.

The Chair notes the presence of the chairman of the full committee, Mr. Tauzin, and welcomes him, and recognizes him for an opening statement.



Chairman TAUZIN. Mr. Chairman, thank you. And I thank you for allowing me to pause between this panel and the panel we are about to receive. Obviously, this panel represents one of the three classes of victims in the corporate misconduct hearings you have conducted.

One of the most severely impacted class of victims, those who gave their lives and their energies to the corporations that have failed, not only failed them but failed the general investors and the general public.

But this class of investors I think makes us realize again perhaps the other side of the insider trading problem that we have uncovered. The other side of it is where the major key players of a corporation know or should know that their corporation is conducting itself in an improper manner, and perhaps reporting improperly to the investors of its company, perhaps suffering, as we learned at WorldCom, significant losses of income and perhaps busy covering up those losses and putting on a much rosier face than the corporation actually enjoys. And at the same time advising its own employees that everything is okay.

They themselves are aware that things are wrong, perhaps busy cashing in on the high value of their stock before the public catches on, and at the same time advising their employees that everything is okay. We all understand corporations are proud of their success, and they want the employees to be proud of their success, and they constantly encourage their employees to work harder and longer and to believe in their own company. And that's one thing.

But when the key managers of a corporation know, or should have known, that the corporation is failing, and that those failures are being covered up, bad accounting, contemporary accounting perhaps, and yet at the same time advise their employees that everything is okay, keep investing, don't sell your stock, that is perhaps the greatest tragedy of all.

I commend you to the Pension Reform Bill this House has already passed. It is on its way to—it is in the Senate now awaiting action—that would forbid corporate executives from selling their stock during periods of time their employees can't sell and would protect against some of these activities, not all of them but some of these activities, perhaps too late for some of you, unfortunately; and commend to you the new powers we have extended to the SEC to try to go back and recover ill-gotten gains.

There are lawsuits mentioned today in the paper where there are attempts being made, at least in New York, to try to do that.

It is also important, Mr. Chairman, I think to reflect—and, first of all, to commend your subcommittee, all of its members, Democrats and Republicans, for the extraordinary job you have done over the last several months doggedly investigating the corporate misconduct we have uncovered in these corporations, beginning with Enron and through this recent one with Qwest and Global Crossing.

I think what we learned out of all of this is going to not only help make these new laws work, and hopefully complete the package of new laws into signature, but it has certainly sent some strong messages out to corporations across America that this is not behavior that is going to be tolerated by the investing public.

And it is certainly not behavior that ought to be tolerated by the good workers who come to a corporation and love it and dedicate their lives to it as you two have. So I want to commend you, again, as the chairman said, for your courage to come and tell your stories. They are repeated so many times in all the corporations we have investigated in the last year.

What we learned in last week's hearing was that, you know, significant executives working at these two companies were charged with making some deals happen that they themselves knew were not good for the company, couldn't explain the reason they were doing them themselves, questioned them in many cases, and, nevertheless, felt compelled to do them because, as we learned, there were instructions from someone, sometimes implicit, sometimes explicit, to make these deals happen because they helped make the numbers for Wall Street, even though they were bad for the corporation, even though they drained the corporation of its cash, stacked up debt for no apparent business purpose other than to pretend they were making money.

And you cannot characterize what we learned last week except as a story of betrayal and betrayal of the public trust and the employees' trust in their own corporations. And what we do today is to examine whether or not the key players in those corporations knew or should have known that that was going on in their corporations and what we might do to make sure this doesn't happen again.

Now, what we also learned last week, Mr. Chairman, was that these employees who put these deals together were not rogue employees. They were responding to changes in the corporate culture. They called it that—changes in the culture. Something changed at the corporation. It was a time when they were making money, and everybody was working together and the corporation was flourishing, and then things got a little tough.

It was harder to make those Wall Street numbers, and corporate culture changed. Cultures don't change unless somebody wants them to change. So today we are going to explore why those cultures changed. Why all of a sudden it became more important to make those numbers, even if you had to make them up, to the detriment of all the workers and the investors in the company. Why it became so doggone important to make those numbers up and see a corporation, a great corporation, go down the way some of these have gone down.

Somebody had to make those cultures change. We are going to explore that today, and why that happens and when it happens and who made it happen in these two corporations. And it is not going to do anybody any good to call this a new McCarthy-ism or Enron-itis. It is not going to do anybody any good to say that in the face of corporate income restatements as much as over a billion dollars we have recently heard from Qwest. Those excuses are not going to fly here, and they shouldn't fly with you, and I know they don't.

So, Mr. Chairman, thank you for continuing this very difficult and painful experience of looking into the lives of the citizens of our country who have been severely damaged because of this corporate irresponsibility that we have uncovered.

And thank you for helping a market that is trying to shake this off, learn what went wrong, and then begin to make wise decisions about where to put its money.

This series of hearings has not been—has not fallen well on the ears of American investors. Until we get all of this behind us and American investors can again return with some confidence to the market, and employees can start believing in their companies again, we are going to continue this rocky road.

So this is critical. This is important. I commend you for it. Others I know wish that you would stop and encourage you to stop. But you have been faithful to the challenge that all of the members of this subcommittee have invested in you in staying with the course and sticking to the extraordinary job of putting the light of sunlight on some of these hidden deals, so in the future that we won't have to hear from employees whose families have been ripped like this.

Thank you, Mr. Chairman.

Mr. GREENWOOD. The Chair thanks the gentleman.

The Chair recognizes himself for questions for 5 minutes.

Let me start with you, Ms. Crumpler. In your opening statement, you mentioned that Tom Casey sent an e-mail to employees saying that the company was fully funded for 2 years and could weather the storm. Do you remember when that e-mail was sent?

Ms. CRUMPLER. I believe it was in the month of May.

Mr. GREENWOOD. In the month of May. Was there—

Ms. CRUMPLER. Of last year, 2001.

Mr. GREENWOOD. 2001. All right. Was there much discussion among the employees about this e-mail and whether they should take their money out of Global Crossing?

Ms. CRUMPLER. We all were under the illusion that this company was going to take us into the future. Perhaps our 100-year old company may be a 200-year old company. Joe Clayton had a plate on his—license plate on his car saying that, \$100, that is where it was going to go. So we believed them totally to the bitter end.

Mr. GREENWOOD. Okay. Let me ask you, Ms. Smith, if I could, in your opening statement you discussed the fact that at a kickoff meeting in June 2000, to celebrate the merger between Qwest and US WEST, Joe Nacchio said that Qwest stock would be selling for \$75 a share. I don't know whether he had a \$75 license plate by the end of 2000.

What was the stock price of Qwest and US WEST stock at the same time of the merger—at the time of the merger?

Ms. SMITH. I don't know the exact figure, but it was trading at around I would say \$50, \$55 a share.

Mr. GREENWOOD. And did the stock price reach \$75 by the end of 2000?

Ms. SMITH. No. I believe the highest price it ever reached was around \$62 a share, though I am not exactly sure that that is correct. But it was a little over \$60 a share.

Mr. GREENWOOD. Okay. Back to you, Ms. Crumpler. How did Global Crossing provide you, as an employee with significant investment in the company, with information about what was happening with your investment?

Ms. CRUMPLER. We were constantly getting e-mails from Mr. Joe Clayton. He was the one that really sold us when they first made the bid in March 1998, I believe, to purchase us, and he kept flying out to California, Beverly Hills.

And he would always send us these long, long e-mails telling us that it was definitely the way to go, that it would be like a trillion dollar marriage between Frontier and Global Crossing. So he always sent very, very long letters, and they were always encouraging letters that we were doing the right thing.

Mr. GREENWOOD. So let me ask each of you, at what point in the process did you begin to have doubts? At what point did you start to think, "oh, my gosh, this is not going to—stock is not going to not only go to \$100, or not go to \$75, but it is going to go down?" And at what point did you begin to feel the floor fall from beneath your feet?

Ms. SMITH. I know from my recollection it was not through direct company information, but through basically the daily reports in the paper where we started learning about the fiber optic swaps and the way that they were accounting for that revenue, and the fact that that revenue was not fairly accounted for.

And then, so basically we started learning that the numbers were incorrect, that they were deceptive, and they were basically created to impress Wall Street. And then, when Wall Street—I believe it was Morgan Stanley—started questioning those figures, kind of the light bulb went off, uh-oh, we could really be in trouble because we haven't been getting the facts. These are not the real numbers. This has all been a falsehood.

And so then I started—and many other people started reckoning or reconciling themselves with the fact that there may not be a recovery.

Mr. GREENWOOD. And that your options to get—to bail out were not—

Ms. SMITH. By then, stock was so low it was—I just kind of gave up on it. I thought, well, maybe something will turn around. You know, I still kept hoping something would turn around. I thought they would recover somehow.

Mr. GREENWOOD. And were either of you aware that executives had been selling their stock at the same time that they were encouraging the employees that everything would be fine and to stay the course?

Ms. SMITH. Yes. Again, most of my information came through the Denver newspapers, Rocky Mountain News or Denver Post. And basically we read about Joe Nacchio cashing in on stock options, something like 28—over a period of 28 months, he would be cashing in daily to the amount of about \$200,000 or \$300,000 a day in his stock options. It was just an unbelievable number, but he was cashing in his stocks, and he was spreading them over a long period of time.

Mr. GREENWOOD. How about you, Ms. Crumpler? Were you aware that executives of the company were selling while you were losing money?

Ms. CRUMPLER. Yes. In the last quarter of 2001, the department that I worked in is Engineering and they—some of the Engineering fellows, they were talking, and they showed me how to go on the

internet and to actually look at the trader information. And that is where I saw Mr. Winnick selling all the stocks, as well as the other ones.

Mr. GREENWOOD. That is trader with a D, right?

Ms. CRUMPLER. Millions. Yes. Actually, it went all the way back to 2000, so I could see it all. But as Ms. Smith has said, the same thing. It was so low then, and I said, well, you know, maybe it will go back up. It will go back up. I just kept believing them.

Mr. GREENWOOD. Okay. Thank you.

Ms. CRUMPLER. That it couldn't happen to us.

Mr. GREENWOOD. Thank you. My time has expired.

The gentleman from Florida is recognized for 5 minutes.

Mr. DEUTSCH. Thank you, Mr. Chairman.

Thank both of you, and I would add, Ms. Crumpler, that both of you are heroes. There might not be parades, but I think all of us who have heard and listened to what you said completely understand that. I think some of us have an appreciation—you know, not just raising a family as a single mom, but just raising a family. And, I mean, clearly caring about their futures and believing in their futures, giving back to them. I am sure your kids appreciate it and understand it.

You have suffered a great deal. I mean, and are suffering now. And I think it is amplified literally by not just thousands and tens of thousands and hundreds of thousands, but literally by millions and even tens of millions of Americans at this point in time, maybe not to the focus, maybe not to the degree.

I referred to an optimistic Wall Street Journal article from last week. Yesterday there was another front page story in The Wall Street Journal not so optimistic. I don't know how many other people have submitted it for the record as well, but talking about in the article specifically a couple dozen of WorldCom employees and other employees of bankrupt companies and personal experiences that they are having, living in garages, selling homes, just as you, Ms. Crumpler, described, friends or people who you have talked about.

Let me mention that some of the anger, which is I think an absolutely legitimate—and betrayal, not just of the system but of individuals, really ought to be directed at us up on this dais and at the U.S. Congress, because the reality is the 401(k) laws that you took advantage of, and were not protected by, U.S. Congress passed.

And, in fact, some of the, you know, situations that you have described, in terms of not being able to sell some of the stocks statutorily, or the 55-year old restrictions, right now—and, Ms. Smith, I mean, you so eloquently talked about the future.

Well, incredible as it sounds, with all we know, with the testimony that you gave today, the testimony that we have heard, or examples that we have seen, at this point in time we are literally days away from a journey—this Congress—and we have not changed the 401(k) laws of the United States of America. Incredible as that sounds. I mean, it is almost incredulous, unbelievable.

I mean, I have introduced legislation, others have introduced legislation, that literally would have protected you. And it won't protect you now. It won't get you your money back. Hopefully, some of it can be. But for those other stories, in 5 years, and 10 years,

and next year, and next month, that could occur—the blackout periods, things like that.

We have not, at this point in time—and by all of the projections, you know, that we are talking about, this is not the highest priority of the leadership of this House at this point in time. It is not like we will not go home unless we pass legislation protecting workers in America. And I will tell you my perspective, and I think at least many of my colleagues, not enough and not the leadership at this point, is that we shouldn't go home. That the suffering and, you know, the testimony that you gave today should—we can statutorily prevent it.

I mean, as you are well aware, I am sure at this point in time, there is no—if your 401(k)s were managed by a professional pension manager, you are both aware that the investments would not have been the way you had them. Are you both aware of that? Ms. Crumpler? I mean, had your 401(k) been managed by a fiduciary—you know, had you given your 401(k) to a fiduciary and said, “Invest my funds,” are you aware that they would not have been invested the way you invested them?

Ms. CRUMPLER. Yes, I now know what a fiduciary—

Mr. DEUTSCH. And, Ms. Smith, you are aware of that as well?

Ms. SMITH. Well, my understanding is the board of directors and the CEOs were the fiduciaries.

Mr. DEUTSCH. No. But your personal—in other words, the over-investment in one particular equity—if you had said to a fiduciary, I mean, anyone at any brokerage house in America, and they took your savings for the purposes that you described, and they put 100 percent—in your case I guess 100 percent of the stock in one company, and let us say what happened did happen, and 90 percent or 100 percent of that equity evaporated, and you had given it to a fiduciary, what would have, in fact, happened is they would have broken their fiduciary duty. You could have sued them for malpractice.

Ms. SMITH. Right.

Mr. DEUTSCH. And, in fact, could have recovered from them or from their insurance or from their company or something like that. So, in a sense, I mean, what we have done in Congress is allowed a system—and by not changing it, I mean, the tragedy here is not just the tragedy that you have experienced, which is untold.

I mean, I don't think any of us could experience what you are going through, and I—in any way we can, you know, on a personal level, I think all of us really wish we could do more and hope we can do something. But I think we also legislate, and we are—our failure at this point in time, with literally days to go before the end of this Congress, we have not legislated to prevent this from happening.

I yield back the balance of my time. Thank you, Mr. Chairman.

Mr. GREENWOOD. The Chair thanks the gentleman, and agrees with him that we do need to pass the 401(k) reform legislation, and would note that I am a member not only of this committee but the Education and Labor Workforce Committee. We passed that legislation from that committee months ago. We passed it in the House months ago, and we await action by the Senate.

The gentlelady from Colorado, Ms. DeGette, is recognized for 5 minutes.

Ms. DEGETTE. Thank you, Mr. Chairman. And I think what my ranking member, and also the chairman, have said about passing legislation is right. However, what really hits me is what Ms. Smith said about even if we pass all these laws it might help future people. It might help some of those people in their twenties. But people who are in their forties and fifties, like all of us, it is not going to help. It is not going to get you your money back.

And in 1995, before I got here, Congress passed a law which made it harder for employees like you to sue accountants and corporate boards. And it made all these requirements that made it much more difficult to bring these lawsuits and to get compensation. And the purpose of that law was to stop frivolous lawsuits, but what it really did—it did stop some frivolous lawsuits, but it also stopped folks like you from getting back your money.

And so I think—and then, in 1997, not content to just make that apply to Federal court, Congress passed a law that it made all these cases be brought in Federal court, so people couldn't bring them in state court. And so what I think we should do, for Ms. Smith and Ms. Crumpler, for both of you, I think we should reform some of those laws, so that you could use the civil justice system to recover some of the money. You know, these executives, they are sending their kids to private schools, and you can't even send your kids to college.

And, I mean, I was sitting up here, because my kids are 8 and 12, and I was thinking about if I lost everything I had. And I know exactly how you feel, and it is little comfort for all those thousands of employees of both these companies, and some of the other ones, to say not to worry, Congress might pass some laws sometime that might help some people in the future. You guys need help today, and so I hope that we work on that.

And I also really hope that both of these companies and other companies will try to find a way to compensate some of their employees who have really lost everything, and who can't send their kids to college or retire.

I mean, what you say really strikes all of us, and I just want to thank you for coming here and let you know Members of Congress recognize that whatever we may do legislatively won't make you whole. The civil justice system is going to have to also participate. And, hopefully, these companies, which are really—you know, I know Qwest has new leadership. They are trying to bring it back more like the old phone company was. And what they need to do while they are doing that is think about the thousands of former employees who lost their jobs who now are just stuck.

So, anyway, that is my message, and I actually have some questions. Ms. Smith, I wanted you to talk—you talked briefly in your opening about the atmosphere at US WEST and how it was the phone company, it was a solid community leader. I want you to talk for a minute about the corporate culture and the feeling at the company after the company was acquired by Qwest.

Ms. SMITH. Well, it quickly became apparent that we were in a new corporate culture, and what had been a long-standing, stable telephone infrastructure, community service company was now

kind of the ride-the-light, fast-moving, fast-paced, moving in the fast lane, high energy, aggressive kind of company.

And people—really, one of the first things that happened is that Qwest started pulling out of some of their community service involvements. We were involved with Habitat for Humanity, Race for the Cure. They would match contributions through their US West foundation, and they stopped the foundation. And so a lot of the philanthropic involvement kind of ceased to exist.

Some of the other things that happened were, you know, a quick startup of projects, and then they would cancel projects. They would bring in—for example, I had a new CEO or, actually, the president of my organization, ITE—he came and he implemented a new process, and within 8 months he was gone. Everything was canceled.

So things were just turning so quickly, and new leadership was funneling through like a revolving door. And so it was hard to—our work felt like it was kind of like throwaway work. It wasn't enduring. People started getting very discouraged, demoralized about the value of their work, and we started feeling very insecure about the future of our company, especially when we saw we would put a lot of energy and work and time into projects that were canceled, and all that energy was gone.

So it was a completely different corporate culture. They changed the retirement laws. That also impacted me dramatically. I had just short of 20 years. There was a 20-year rule, which I was just short of because I had been on maternity leave. And, consequently, some of the retirement benefits I would have been entitled to were cutoff, just because the new management said, "We can't cover you in your retirement."

Ms. DEGETTE. And how long did it take for the corporate culture to change like that?

Ms. SMITH. Oh, I would say within a couple months. I mean, it happened very rapidly. The old management left, most of them, when the new management came in.

Ms. DEGETTE. Ms. Crumpler, did you see some of the same things happen at Global Crossing?

Ms. CRUMPLER. They left the majority of the things in place.

Ms. DEGETTE. So you didn't see a change in corporate culture at all?

Ms. CRUMPLER. Things were changing, the fact that a faster pace, that we would move on, you know, quickly into the 21st century—you know, become a leader in the fiber optic network and the broadband. So that was what they kept, you know, feeding us, that we would be the leader, and there were very few competitors out there that could compete with us.

Ms. DEGETTE. Thank you.

Thank you, Mr. Chairman.

Mr. GREENWOOD. The Chair thanks the gentlelady.

And the Chair very sincerely thanks both of our witnesses, Ms. Smith and Ms. Crumpler, for traveling from your homes in Colorado and New York to come here to this fairly intimidating setting to tell us your story. You did a great job, both of you, and we thank you.



And you are excused now. You are certainly welcome to stay with us and listen to the rest of the hearing.

Ms. CRUMPLER. Thank you.

Ms. SMITH. Thanks.

Mr. GREENWOOD. The Chair would then call the second panel consisting of Mr. Gary Winnick, Chairman of the Board of Directors of Global Crossing Limited; Mr. Jim Gorton, former General Counsel of Global Crossing Limited; Mr. Dan Cohrs, Chief Financial Officer; Global Crossing; Mr. Joe Perrone, Executive Vice President of Finance of Global Crossing; and Mr. David Walsh, former President and Chief Operating Officer of Global Crossing.

You can do anything you would like. Do you want to change the—Mr. Cohrs, would you move your name plate over in front of you when you have an opportunity? And is Mr. Perrone with us?

Okay. We welcome each of you for—we welcome you, and we thank you all for being with us this morning.

As you heard me advise the first panel, this committee is holding an investigative hearing, and it is our practice when holding investigative hearings to take testimony under oath. Do any of you object to giving your testimony under oath this morning?

Seeing no such objection, I advise you that pursuant to the rules of this committee, and pursuant to the rules of the House of Representatives, you are entitled to be represented by counsel. Are any of you represented by counsel? Mr. Winnick?

Mr. WINNICK. Yes.

Mr. GREENWOOD. If you would identify your counsel by name, please.

Mr. WINNICK. Gary Naftalis.

Mr. GREENWOOD. Okay.

Mr. WINNICK. And David Frankel.

Mr. GREENWOOD. All right.

Mr. WINNICK. Both of the same firm.

Mr. GREENWOOD. Very well.

Mr. Cohrs, are you represented by counsel this morning?

Mr. COHRS. Yes, Mr. Chairman, I have counsel. It is Ralph Ferrara and Jeffrey Kinnard from the firm of Debevoise & Plimpton.

Mr. GREENWOOD. Very well.

Mr. Perrone?

Mr. PERRONE. Yes, I am. Also Mr. Kinnard and Mr. Ferrara from Debevoise & Plimpton.

Mr. GREENWOOD. The same as Mr. Cohrs.

Mr. PERRONE. That is correct.

Mr. GREENWOOD. And Mr. Walsh?

Mr. WALSH. Yes, I am. It is Ralph Ferrara and Martin Auerbach.

Mr. GREENWOOD. Very well.

And Mr. Gorton?

Mr. GORTON. Yes, I am. It is Mr. Larry Iaxson and Mr. Rob Raddick.

Mr. GREENWOOD. Very well. All right. Well, if you gentlemen would rise and raise your right hand, I will swear you in.

[Witnesses sworn.]

Okay. You are under oath, and I will ask if any of you have opening statements that you would like to make. Mr. Winnick, do you?

Mr. WINNICK. Yes, I do, Mr. Chairman.

Mr. GREENWOOD. We will begin with you. Mr. Winnick, whatever else happens this morning, I appreciate the fact that you have agreed to take testimony rather than to exercise your Fifth Amendment rights.

Mr. WINNICK. Thank you for that.

**TESTIMONY OF GARY WINNICK, CHAIRMAN OF THE BOARD OF DIRECTORS, GLOBAL CROSSING LTD.; JIM GORTON, FORMER GENERAL COUNSEL, GLOBAL CROSSING LTD.; DAN COHRS, CHIEF FINANCIAL OFFICER, GLOBAL CROSSING LTD., MADISON, NEW JERSEY; JOE PERRONE, EXECUTIVE VICE PRESIDENT OF FINANCE, GLOBAL CROSSING LTD., MADISON, NEW JERSEY; AND DAVID WALSH, FORMER PRESIDENT AND CHIEF OPERATING OFFICER, GLOBAL CROSSING LTD.**

Mr. WINNICK. Good morning, Chairman Greenwood and members of the subcommittee. This is my first appearance before a congressional committee. In a more perfect world, I could be here to applaud our company's success in building the world's greatest telecommunications network. But, of course, I am not here to applaud success.

Rather, the devastation that has beset the telecommunications industry during the past 12 months and my own company's bankruptcy, have raised some very important questions for this subcommittee. And I am pleased to respond to any of the questions you put forward to me today.

As you said, Chairman Greenwood, I chose to testify today for two very important reasons. First, I believe it is important for the subcommittee, as well as the Congress and the American public, to hear directly from Global Crossing's executives, including its chairman, about the hard work of the men and women who built this great company.

They include some of the very best executives, both past and present, who join me on this panel today. All are people of keen intellect and healthy ambition, and all have the drive to make Global Crossing a success. I was proud to serve with them.

Most important, however, are the thousands of people across the globe who helped build this company. These Global Crossing executives and employees brought out dream to bright reality. They shared our collective vision of revolutionizing global telecommunications.

It was each one of them who put their careers and opportunities aside to become part of the Global Crossing family. And make no mistake—we were a family—in the face of enormous financial risks in joining a startup.

Mr. Chairman and members of the subcommittee, I want to express to them and to you as the elected representatives, my profound sorrow at the impact of Global Crossing's distress on their professional lives and their financial well-being, and my sadness over the setback to our shared vision.

Second, I chose to testify today because I want to help you distinguish the facts as I understand them, from fiction or speculation, both with respect to Global Crossing and to me personally.

When we began to construct our 100,000 mile fiber optic network, it seemed as though there was simply not enough fiber optic capacity to satiate the appetite of a world that would become committed to transmission of ever-increasing and enormous amounts of voice, data, and video traffic. As we all know, the principal driver was the demand forecasts for the explosive growth of the internet worldwide.

Our vision was one of innovation and competition—to be the first company out of the gate in building a global network to meet demand and to provide the best possible service to our customers. We set out to change the face of telecommunications by competing directly with the traditional telecommunications giants and by dramatically cutting the cost of telecommunications to our customers and their customers around the globe. And, for the first several years, we were very successful.

Neither our bankruptcy nor the global telecom meltdown that precipitated it is unique to our company. Others in the industry either have filed for bankruptcy or are concerned that they may have to at some point in the future. A \$300 billion industry that is the backbone of our nation's capacity to communicate with each other is in jeopardy. Indeed, our very freedom to speak our minds will be of little value if we no longer have the facilities and the access to be heard.

Before responding to your questions, may I first observe that all too often Global Crossing has been mentioned along with a number of companies as among the great corporate scandals. I do not have the knowledge of the facts and circumstances relating to other companies, other than what I read, and I cannot comment on them.

But Global Crossing's bankruptcy, based on the facts known to me, is not a result of fraud, but of a catastrophe that befell an entire industry sector. I don't offer this as an excuse, because it is certainly not an acceptable excuse. It is an explanation that I hope will take on greater meaning as our discussion proceeds here today.

You have interviewed many past and present Global Crossing employees, and you have reviewed tens of thousands of e-mails and other documents from our company. I have only my recollection with me here today, and I request the opportunity both to review the transcript of these proceedings and to provide clarifying comments so that your record may be complete.

Thank you, Mr. Chairman.

Mr. GREENWOOD. You will have both of those opportunities.

Mr. WINNICK. Thank you, Mr. Chairman.

Mr. GREENWOOD. Thank you.

Mr. Cohrs, do you have an opening statement?

Mr. COHRS. No, Mr. Chairman. I will answer questions.

Mr. GREENWOOD. Very well.

Mr. Perrone, do you have an opening statement?

Mr. PERRONE. No, I do not.

Mr. GREENWOOD. Mr. Walsh, do you have an opening statement?

Mr. WALSH. No, I do not.

Mr. GREENWOOD. Mr. Gorton?

Mr. GORTON. No, I do not.

Mr. GREENWOOD. All right. The Chair then recognizes himself for 10 minutes for purposes of inquiry and notifies the members that this will be a 10-minute round.

And, Mr. Winnick, as you might suspect, I am going to start with you. We have just heard from Lenette Crumpler, a Frontier employee who lost her entire retirement savings. She has testified that she believed in Global Crossing. She believed in the executives who told her and other investors that the company would “weather the storm.”

And yet while she did not sell her stock because she had faith in the company and its leadership, you sold almost 10 million shares and reaped \$123,512,549 in proceeds from that sale in May 2001.

When you sold those shares in May, you knew that the financial projections for the company showed that Global Crossing may not meet its numbers for the quarter, isn’t that correct, Mr. Winnick?

Mr. WINNICK. When I sold the stock in May—May 23, 2001, to be exact—the company had just completed, as I recall, an analyst call reporting its quarterly numbers, on May 10, I believe, or May 11. The company—in fact, I was I believe in Asia at the time, but I read the report and our CEO had reconfirmed along—he was on the call with Dan Cohrs, our Chief Financial Officer, reconfirmed guidance, both for the quarter and for the year.

So the suggestion that I sold stock, based on information that was not readily available, is not correct, sir.

Mr. GREENWOOD. All right. Well, I am going to ask you to turn in your notebook there to Tab 10. And Tab 10 consists of the notes from a management meeting held on the 16th of April of last year. I am sorry. Let me correct that. Let me correct that. I am sorry.

Tab 15. These are the notes of the Office of the Chair Minutes from May 16, which was exactly 1 week prior to your sale of the \$123 million worth of stock. And if you would turn to page 2, at the top of that page, you will see a handwritten word that says, “Highlights.” And then it says, “The forecast for second quarter is \$285 million, which is about \$360 million light.”

So, clearly, 1 week before you sold your stock you knew that you were—the company was in fairly horrendous shape, that you were going to be \$360 million short of your revenue projections for the quarter. Isn’t that not correct?

Mr. WINNICK. Well, I don’t have the specific recollection of this forecast, and I am reading this now. But I can tell you my reaction to this particular meeting on May 16, as well as other Office of the Chairman meetings, which we conducted at least once a month and many times twice a month.

The business cases, the numbers that were being created for the presentation in the—these are notes of the meeting, Chairman Greenwood. There was a—as I recall, from most of the Office of the Chairman meetings, there would be a book prepared for that, which I don’t have the benefit of having here in front of me, so I am just looking at the notes.

Whatever you see here are just highlights, and they are, in my estimation, very preliminary. As you probably know, the company did make its numbers for the second quarter of 2001, notwithstanding—

Mr. GREENWOOD. The quarter was half over at this point, so I am not sure how preliminary they are. But you had revenues of \$285 million. I think the note was you are \$360 million short. Is that—that sounds to me like an earthquake, not a preliminary glitch.

Mr. WINNICK. I think if you look back, Mr. Chairman, in the history of this company, which I had been involved in from the very inception, there was always a great deal of uncertainty during the quarters. And, in fact, it is an anomaly, but we really never knew what the final result of the quarter would look like until the end of the quarter. It was the nature of the business.

So to the extent that there is a highlight here that the numbers are light halfway through the quarter doesn't really give me any indications of what they were going to do about it.

Tom Casey, who was the CEO at this time, had a variety of initiatives in place in the company, both cap ex reduction, capital expenditure reduction, cost reduction, head count reduction, and the company was very much focusing and shifting from a pure wholesale IRU model to an outsourcing model.

For example, during this timeframe in May, as I recall, Deutsche Telecom was doing a significant amount of due diligence on the company, not for purposes of acquiring the company, which obviously we would not have objected to at the time, but looking at the company in terms of its network capabilities.

One of the things that has been lost in this myriad of press is what this company was about. We built—

Mr. GREENWOOD. Well, let me—I am going to have to—I have limited time, so I am going to have to stick with the line of questioning.

Mr. WINNICK. Oh, I am sorry.

Mr. GREENWOOD. I would like you to turn to Tab 10, if you will, which are the management meeting minutes for April 16, 2001. And if you look on the second page, about halfway down, it says—and this is Tom Casey speaking. "We do not have room for more reciprocal deals." Would you interpret that for us? And in the context of that, would you tell us how frequently you communicated with Tom Casey?

Mr. WINNICK. Sure. Well, it is certainly easier for me to tell you how much I communicated with Tom than what Tom's intent was in some statement here. I spoke to Tom frequently. I spoke to him—he spent a fair amount of the week back in New Jersey. I was in Los Angeles. I probably talked to Tom at least once a day.

Mr. GREENWOOD. Okay. So you talked to Tom once a day. So he—here he is, on April 16, saying, "We do not have room for more reciprocal deals." He is talking about missing revenue. He says, "The company is missing revenue, running at an expense rate that is ridiculous."

Mr. WINNICK. Well, he—

Mr. GREENWOOD. Did he share that with you?

Mr. WINNICK. Well, he did—

Mr. GREENWOOD. Those concerns with you?

Mr. WINNICK. Well, he certainly shared with me that he had a variety of cost reduction initiatives in place. Absolutely.

Mr. GREENWOOD. That is not what I am asking you. I am asking you, did he say to you that the company is, "missing revenue, running at an expense rate that is ridiculous"? Not in so many words, but did he indicate to you that that was the dire situation that he was seeing?

Mr. WINNICK. I don't believe—

Mr. GREENWOOD. Back in April 2001.

Mr. WINNICK. I don't come out with the same interpretation as you do, Mr. Chairman.

Mr. GREENWOOD. Well, what is your interpretation?

Mr. WINNICK. That anything is dire. I look at this Tab 10, and I see a note here that says, "David," and I can't make out the word next to it. It looks like "carrier," but I am not sure. I assume that is David Walsh.

And at the same time in this memo that—there is some notation of perhaps—well, let me find that first. I do see here that there is a notation on this management committee meeting, which, as you could see by the heading, I am not part of, and I was not—

Mr. GREENWOOD. All right. That is why I asked you if you talked to Tom Casey regularly, and you explained you talked to him daily. So I am assuming that he was not hiding this kind of information from you. But you assume otherwise?

Mr. WINNICK. Well, that would be unfair, because when I said I spoke to Tom, he didn't have a lot of time. He had a lot of pressure. He had a lot of responsibilities.

Mr. GREENWOOD. So would you characterize your communications with Tom Casey as one in which he was not forthcoming with the important matters that affected Global Crossing?

Mr. WINNICK. No, I wouldn't say that at all.

Mr. GREENWOOD. Okay.

Mr. WINNICK. But I think it is important to recognize that Tom was the CEO of the company during this period of time and had a lot of responsibilities and took those responsibilities. He is a very competent person.

Mr. GREENWOOD. Okay. Well, I think that is probably true. If you look at the last page of that memo there, again, this is quoting Tom Casey who is very competent. He says, "Theme for today: must fix this! Missing revenue. Running at expense rate that is ridiculous."

Now, there is someone you have just described as very competent describing the situation at Global Crossing in April of last year. And you began by telling me that you thought in May, when you sold your stock, that the company was in great shape. And here he is a month ahead of time communicating with you daily and indicating that the company is missing revenue, running at an expense rate that is ridiculous.

Mr. WINNICK. Well, first of all, the—it would be the wrong assumption, Mr. Chairman, to suggest that by having some conversation with Mr. Casey, which I think for the most part I spoke to him daily, but they were sound bytes. They were brief. There might be something he wanted to mention to me or something I wanted to mention to him, not necessarily always related to Global Crossing, I might add.

His notation—this notation here about missing revenue, I would expect Tom to put as much fire under his leadership team as he needed to to run the business the way he felt was appropriate.

Mr. GREENWOOD. Let me, finally, ask you to turn to Tab 8.

Mr. WINNICK. May I make one other comment, though, sir?

Mr. GREENWOOD. Certainly.

Mr. WINNICK. Going back to this tab, one of the things that is not being raised is that David—and I assume it is David Walsh—indicates here that he has \$1.7 billion in opportunities. And I assume those are transmission opportunities in some form.

Mr. GREENWOOD. Or swap opportunities. It is not made clear.

Mr. WINNICK. Well, and he also notes here \$678 million focused primarily in Global accounts. So I can't tell you what is meant by this memo, which I didn't receive. But I can tell you as it relates to my May 23 sale.

Mr. GREENWOOD. Well, let me—since my time is expiring, let me ask you to turn to Tab 8.

Mr. COHRS. Mr. Chairman, would it be permissible for me to add a bit of context to these notes? May I make that request?

Mr. GREENWOOD. You may. We will get to all of you, and you can insert that into your responses.

But are you at Tab 8, sir?

Mr. WINNICK. Yes.

Mr. GREENWOOD. This is, again, Tom Casey, you have characterized as speaking to you daily, as very competent. He says, "We need to treat this as a crisis." Oh, I am sorry. This is on page—this is the third page of that document.

He says, "This revenue shortfall is a crisis. The company is a billion dollars off on revenue and a billion dollars off in expenses." Is it your opinion that the crisis was, in fact—the company was, in fact, in crisis at that time?

Mr. WINNICK. Absolutely not. No, it is not.

Mr. GREENWOOD. So even though Mr. Casey, whom you have described as someone who spoke to you daily, was very competent, he says, "We need to treat this as a crisis. We are a billion dollars off on revenue, a billion dollars off on expenses," you—is it your testimony here this morning that he did not convey that to you? Or is it your testimony that you think that he was in error with regard to this assessment that the company was in crisis?

Mr. WINNICK. Well, this April 9 meeting was a management committee meeting, and I don't know the origin. But there is—again, the heading here has at least 10, maybe more, executives, many of which are sitting here on this panel with me today.

Mr. GREENWOOD. I understand that. But I am addressing your attention to where Mr. Casey says, "We need to treat this as a crisis. We are a billion dollars off on revenue and a billion dollars off on expenses." And my question to you is: is it your testimony this morning that a) Mr. Casey was wrong, and, in fact, it wasn't a crisis, and you weren't a billion dollars off on revenue and weren't a billion dollars off on expenses? Or is it your testimony that he was correct and he just didn't share that information with you?

Mr. WINNICK. I don't have any recollection of Tom conveying that to me. And, in fact, there is a great inconsistency to this, because, as I said before, in May both Tom and Dan reconfirmed the guid-

ance. So I don't know what the origin of this was, but certainly had Tom been concerned, or the rest of the management team been concerned about a revenue shortfall—

Mr. GREENWOOD. But that is exactly the point here. You went out publicly and assured everyone in the public—your investors, your employees—that things were in good shape, while at the management meeting the company is described as in crisis with these billion dollar shortfalls. And you are sitting here this morning telling us that you were not aware of this, even though this guy reported to you and talked to you daily. That is hard for us to follow.

Mr. WINNICK. Well, when I said—when you asked me the question regarding Tom talking to me, we did speak regularly, and almost daily, but it may be just a very small sound byte. Tom reported to me as the chairman. He ran the business. He was the CEO.

In fact, when Tom was asked whether he wanted to be the CEO of this company, Tom had a condition attached to it, which was a very reasonable condition. He wanted the autonomy to run the business. He wanted the autonomy to have all of the people in the company report to him.

Mr. GREENWOOD. Well, did Lod Cook report to you from these meetings?

Mr. WINNICK. Lod didn't report to me. We worked together as chairman and co-chairman.

Mr. GREENWOOD. All right. My time is way over, and I am going to give the same amount of leeway to the ranking member as I have given to myself to get through this line of questioning.

But here is what concerns me. If you look at Tab 6, this was April—these were the management minutes of April 2, 2001. You had just gotten the first quarter results back.

Mr. WINNICK. I am sorry. Chairman Greenwood, which one, please?

Mr. GREENWOOD. Tab 6, first page of that. There is an indication there that says, "Cannot continue running the business with IRU sales to counter losses on current service." And then it says, "Reminder: No one to talk about performance until we get our numbers published. Be careful. Do not comment on the market either. Formal earnings release will be in middle of May. We remain comfortable with our guidance," which is what you have assured us here this morning, that you were relying on guidance.

And what it sounds—what it looks very much like to us is that while it was clear to the management in the company at this time that you were in a hell of a situation, that you were billions of dollars short in revenues, that you were experiencing ridiculous losses, that your message to the public was, "Pay no attention to the man behind the screen. All is well." And advice to the rest of the management team to be quiet, be careful, and don't let this—don't let the public in on the truth. How would you—would you interpret this otherwise?

Mr. WINNICK. I would interpret it quite—very different than that.

Mr. GREENWOOD. Well, we are all ears, Mr. Winnick.

Mr. WINNICK. Okay. First of all, as I indicated before, Chairman Greenwood, I did not participate in these management meetings,



and I am not even noted here as being in the meetings, which was part of my understanding from——

Mr. GREENWOOD. But you didn't—and no one reported to you about these meetings?

Mr. WINNICK. Whatever discussions Tom Casey had with his senior leadership team, which—all of which are sitting here at this table, so perhaps they could answer this question better than I.

On May 9, I believe it was, Joe Perrone, notwithstanding this as being April, and which is, in fact, after the quarter, the first quarter, Joe Perrone had prepared a schedule for Tom, which I had the benefit of seeing in preparation of coming here today, sir, that Tom used, and Dan used I believe, as the basis of their analyst call on May 10 or 11. I am not sure on the date, and where they, again, reconfirmed their guidance.

The business—we were a young company. We didn't have the benefits, as many major companies have, in terms of having reserves that they could bring back into the quarter when they have shortfalls. We had to, in our company, go out and get the business. Our network was coming online. We were adding more facilities.

The demand and traffic studies, whether they were right or wrong, which turned out to be wrong in many cases, were almost unanimously very, very bullish and positive on the accelerating demand for transmission services because of new types of applications that were coming on stream.

Mr. GREENWOOD. We know that was the general mood in the telecom industry. But the chronology that we have just outlined here—and I have to stop, because my time has expired, and I apologize for that. But the chronology here is that there is crisis at the management level. There is direction to keep mum. There is bullish guidance given to the public, and soon thereafter there is recognition that things are pretty bad. And that is what this hearing is all about.

The Chair recognizes the gentleman from Florida for 20 minutes to compensate for the extra time that I took.

Mr. DEUTSCH. Thank you, Mr. Chairman. I appreciate it.

Mr. Winnick, you know, I would like to follow up on a number of things that Mr. Greenwood mentioned. And, obviously, you know, the inference is that the sale that you made on May 23 that yielded \$123 million was a sale based upon insider knowledge. I mean, that is clearly the inference that he questioned you about.

I would be curious about a couple of things. One is, at that point in time, May 23, could you give us an approximation of how much stock in Global Crossing you owned?

Mr. WINNICK. Yes. If I may, Congressman Deutsch, I can come at it a little bit differently. Over my tenure with the company, which is about five and a half years at this point, I have sold a total of about 30 percent of my holdings in the company. I still maintain 70 percent of my holdings, even though it doesn't have a lot of value today.

So the suggestions that anyone might have, particularly in some of the articles I have read, that I have bailed out and cashed out, is just absolutely false. In the—which, by the way, the 70 percent relates to I still own about 80 million shares in equivalent. I have

sold about 30 million shares from the inception of the company. Does that answer your question?

Mr. DEUTSCH. Yes. I mean, just—it would be easier also if you could mention—you have mentioned the share value. But as of May 23, in Global Crossing stock—I mean, obviously, you didn't sell the majority of your shares, you sold a fraction. Just to give us a perspective of how much you sold, you know, you sold what percent of your holdings at that point in time, in that sale?

Mr. WINNICK. In May?

Mr. DEUTSCH. Or, I mean, you sold \$123 million worth of Global Crossing. How much did you own—

Mr. WINNICK. I sold 10 million shares. I still—

Mr. DEUTSCH. And you owned 90 million at the time?

Mr. WINNICK. Yes.

Mr. DEUTSCH. So you had about a billion dollars, approximately a billion dollars, in Global Crossing stock at that point?

Mr. WINNICK. More than that.

Mr. DEUTSCH. So literally, at that point in time, you sold approximately 10 percent of your shares?

Mr. WINNICK. Ten, 11 percent. That is correct, sir.

Mr. DEUTSCH. Okay. And the reason I pursue this—not—I really don't like to get into personal anecdotal stories. But I think it actually relates to the last panel where people who had 100 percent of their holdings—and, obviously, the scale of the holdings was much smaller—but 100 percent of their holdings in a particular stock.

You know, at that point in time, of your—you know, I mean, again, if you don't feel comfortable, I wouldn't answer it. But how much of your net worth at that point would be in Global Crossing stock? 80 percent of it? 90 percent of it?

Mr. WINNICK. Most of my net worth has come from a result of Global Crossing.

Mr. DEUTSCH. And so what you were doing at that point in time would be really doing what any prudent investor would be doing and diversifying a little bit?

Mr. WINNICK. Well, actually, more significant than that, I was not a big seller of stock in the company. In fact, at the time we had a deal with US WEST to merge. Part of the transaction which I negotiated was to have US WEST buy 10 percent of Global Crossing. This is pre-Frontier.

At the time, I owned 20 percent of Global Crossing, because this was pre-dilution to Frontier. Effectively, we created a \$3.5 billion cash tender for the stock of Global Crossing, which I don't believe any telecom company, or at least emerging telecom provider, ever had for the benefit of their shareholders. And this gets lost.

In fact, this is never written about. I was entitled at that time of that tender to take out 20 percent of the proceeds of \$3.5 billion, which effectively was \$700 million, for me and my family. And I only elected to take half and left the balance for the benefit of the other shareholders. So, effectively, the shareholders were able to prorate a much bigger percentage.

Mr. DEUTSCH. Let me, you know, go back to that specific sale, because that really seems to be a lot of the focus of the previous testimony. Is there—I mean, at that point, is that something, I mean, you were planning on selling? I mean, was that something

that your personal, you know, financial advises you personally—I mean, what made you sell at that particular point in time?

Because clearly the inference is that you knew something about the company that others didn't know, and that is why you sold, while others were holding on and while there were public statements about how good the company was doing.

Mr. WINNICK. Well, I thank you for the question. Obviously, some could look at it as if I decided on a given morning to sell. That is not the case.

And factually, and the documentation will support, what I am about to say to you. At the time that Global Crossing was created, I had my own personal investment group called Pacific Capital Group, which I still have. Pacific Capital Group had a line of credit that had been drawn down almost equal to the exact dollar amount of the sale proceeds.

It was Pacific Capital Group that sold the stock or entered into this financial transaction referred to as a collar on May 23. And it was something that had been worked on for a few months in terms of all the legal documentation and dealing with the investment dealers to see who could do a better job on it. We decided to pull the trigger, however, in May, but this had been contemplated for quite some time.

Mr. DEUTSCH. I mean, any particular reason why that particular day in May, or why in May?

Mr. WINNICK. It was just, you know, I was getting good advice from my financial team at Pacific Capital that it was prudent to reduce or eliminate the line of credit. The window was open. Shortly after the earnings release on May 10 or 11, the window was open by the company. And I was very cautious and very careful about the execution of selling stock.

First of all, I was the largest shareholder of the company, and obviously that sends a message, and I didn't lose sight of that. I rejected the notion about selling stock into the market every day as most people do when they are insiders in the company, and then their filing requirements are 10 days or 2 weeks later. I wouldn't do that, so I wanted it all done at one time.

And, in fact, I insisted with the investment dealer who handled that transaction that it be disclosed within 2 days, because I didn't want rumors and information being in the marketplace. But I sold the stock solely for the purposes of eliminating an indebtedness, and the window was open, and we documented everything relating to what was appropriate and legal during that period and sought all of the necessary approvals.

Mr. DEUTSCH. Let me go back to, again, some of the questions that you have already heard. Obviously, you know, again, we have really a truly I think incredibly competent staff in terms of going through records and trying to really put together and piece together incredibly complicated puzzles in terms of historical things that have happened at different companies.

And, you know, I mean, they have done a great job again in this hearing. And they have gotten—you know, put together in really useful order minutes of meetings that you can question about. I mean, first of all, let me just be clear, and so I understand.

You did not attend any of these meetings that—the documents that you—that we have talked about—the Tab 8, the Tab 15, these are executive committee meetings that you would not have been——

Mr. WINNICK. If they were management meetings, I did not attend. If they were Office of the Chairman——

Mr. DEUTSCH. Okay. So these are management—MMM would be management meetings?

Mr. WINNICK. Management meetings I did not attend.

Mr. DEUTSCH. Okay. So you did not attend any of the meetings of these notes?

Mr. WINNICK. No.

Mr. DEUTSCH. Okay. And so your information about what occurred at those management meetings would occur how?

Mr. WINNICK. Generally, it wasn't reported to me.

Mr. DEUTSCH. I mean, you obviously wanted to know what was going on in the company. How were you keeping track of what was going on in the company?

Mr. WINNICK. You know, I talked to Tom enough that I was generally informed on the company at a very high level. I mean——

Mr. DEUTSCH. Like how often a week, I mean, would you be talking to him?

Mr. WINNICK. Well, I said to Chairman Greenwood that I think I spoke to Tom very frequently. If it wasn't every day, I spoke to him at least 3 or 4 days during the week, and, in fact, he was in L.A. a couple of days during the week, so I would have a chance to see him for, you know, a small amount of time.

Most of our conversations was more in corporate development and strategy as opposed to sales and things of that nature, although I did certainly help and involve myself in some sales activities.

Mr. DEUTSCH. So, I mean, is it your testimony that the specific things discussed—the billion dollars in shortfall in sales, or the billion dollars over in expenses—you would have no personal knowledge of that?

Mr. WINNICK. Tom was always very confident that he would make his numbers and did not involve me in the minutia of—and, frankly, billion dollar shortfalls, I think, is certainly something that would be very relevant, and you would assume he would come to me. So I don't believe he believed it. I don't believe his management team believed it. And I don't know the basis of why these are in the management meeting notes, but I didn't get copies of the management meeting notes.

Mr. DEUTSCH. So what you are telling us, then, is that even though it says it is a billion dollar shortfall it might have just been a way to motivate people? You have used that term previously, that things are worse than they look. I mean, trying to give us a feel of what was actually going on.

Mr. WINNICK. Well, you know, the notation of a shortfall is a notation in the absence of the future business opportunities. You know, as I said before, in one of the notations that Chairman Greenwood referred me to, it showed a shortfall, or a notation of a shortfall I believe, and then it showed \$1.5 billion, \$1.7 billion, of business opportunities.

Mr. DEUTSCH. So it is kind of how we use numbers on deficits. I mean, a shortfall really isn't a shortfall. A shortfall is a shortfall based upon what the projection was, hopefully in an optimistic way, going to be.

Mr. WINNICK. To me, all of these numbers that I would get to see at the Office of the Chairman, notwithstanding the management, because the origin of that—there are people here who can certainly address that much better than I—were preliminary. The Office of the Chairman information was high end, and then bottom line, so that there wasn't a lot of meat to the middle of it.

Mr. DEUTSCH. What about the comment, you know, in the minutes "treat it like a crisis"? I mean, is that—again, I mean, is it a crisis? Treat it like a crisis? I mean, what is going on in this company? Is there a crisis in the company that you are aware of? Or are we treating it like a crisis to motivate people to try to make the sales at the end of the quarter?

Mr. WINNICK. Well, at the risk of troubling anybody, I believe that from the very inception of this company, even before it was a public company, every quarter was a crisis. We didn't have a foundation to draw from.

Whatever business we did, and whatever business got booked in that quarter, is business that we went out and sought, and in many cases it was business that was taken away from the incumbent phone companies that totally dominated the landscape of telecom, and, unfortunately for all of us, will dominate the landscape of telecom in the future because of the demise of companies like ours.

Mr. DEUTSCH. I mean, you talked about making his numbers at the end of the quarter. I mean, you know, the major focus of what we have looked at is this, you know, so-called sham transaction, the swaps that really had no business purpose. I mean, what was your knowledge, or what is your level of knowledge, in terms of the details of a specific transaction?

Mr. WINNICK. Okay. I take issue with the comments that are used of swaps and hollow transactions and terms of that nature. Our company—actually, from the very beginning of the company, did reciprocal transactions. So it wasn't a new revelation. But there were very specific procedures in place.

First and foremost, there needed to be a business case that had a justifiable business purpose—not a manufactured business purpose, but a justifiable business purpose. And that was just one level of check and balance.

The second level of check and balance would be the sign-offs of the various department heads throughout the company—network services, network engineering, sales, financial. Joe Perrone is a very experienced chief accounting officer and was a senior partner at Arthur Andersen, which obviously is not a name today that people want to be proud of, but was the gold standard in this industry.

Dan Cohrs is a Ph.D. and very capable, and he is very smart and very capable, and he is the CEO—the CFO of this company and remains in that position, as well as Joe, notwithstanding the crisis that we have been living through here for the last 9 months.

They, too, needed to approve and sign off on the deals, the reciprocal transactions. The CEO was required to sign off on the busi-

ness transactions. And then before—it was my understanding before anything was booked in the company it required Arthur Andersen's sign-off. And in some cases, these transactions went to the audit committee, and in some cases those transactions came to my door because of the threshold of dollars that were involved in it. So—

Mr. DEUTSCH. You know, what I actually just asked our staff was just examples of some of the transactions that have obviously raised questions to us, but also to our staff. You know, what was your level of knowledge on the 360 transaction, in terms of swaps or reciprocal?

Mr. WINNICK. I had a fairly good knowledge of the transaction at the time it was brought to me.

Mr. DEUTSCH. And in terms of trying to defend it as a business purpose, could you get—I mean, could you—still in a position to defend that it is a business purpose?

Mr. WINNICK. Could I defend it today?

Mr. DEUTSCH. Today.

Mr. WINNICK. Knowing what I know today?

Mr. DEUTSCH. Well, obviously, not hindsight.

Mr. WINNICK. Right.

Mr. DEUTSCH. But at the time.

Mr. WINNICK. It is a little difficult, because the company did file for bankruptcy. My job was not to defend or reject the business purpose, business cases, which I had no involvement with in terms of the operations of the company.

I remember the 360 transaction. And, in fact, it was a business case that was presented, and the reason it was brought to me, and then the executive committee of the board, was because of the dollars involved. And, frankly, I was surprised when Tom Casey told me about the transaction before our executive committee meeting, that part of the transaction involved us acquiring capacity in the Atlantic, because it was my assumption that we had ample capacity in the Atlantic, but I wasn't involved in the details of that.

And the business case was very much supported by all of the operating people that were on the call. The only issue of question with 360 was the financial instability that I think all of us perceived as the primary risk factor in doing business with them at that time.

Mr. DEUTSCH. Mr. Perrone, would you want to comment on the business purpose of the 360 network transaction? And could you defend it, you know, in a more specific way? Again, at the time when it was made.

Mr. PERRONE. Well, I mean, I can comment generally. I was responsible for putting the process in place by which the various functions in the company approved the business cases. But from my general knowledge, as an example, I was in the budget meetings many months before that.

Mr. DEUTSCH. In that case, before you answer, is anyone else here in a position to, you know, basically give us the background of why, you know, from your perspective that that was—Mr. Cohrs?

Mr. COHRS. If I may, Mr. Deutsch, the 360 transaction originated from a need for Atlantic capacity at Global Crossing. We had, as Mr. Perrone was just about to mention, in the budget meetings in

the fall, we had extensive presentations from our product management and network engineering people who ran those departments, that we had needs based on our forecasts at the time.

Now, this was based on the forecast at the time—that we had needs in the very near future for additional capacity in the Atlantic. Partly it was because the demand forecasts were very robust at that time. Partly it was because of the network configuration we had in the Atlantic. We had built our own cable.

We had purchased or co-built with Level 3 half of another cable, and we were projecting that we would have a level of demand sufficient to fill up our own cable, which meant we would have no redundancy and no backup available in the Atlantic. And it was critical for us to obtain redundant capacity in the Atlantic to provide for that demand that we had projected.

We were at a point at this time in the spring when it was actually too late, based on those forecasts, to construct the capacity, and it was both more timely and more economically efficient to purchase the capacity.

Mr. DEUTSCH. If I could follow up something specifically, I think, and this is—this is from our previous hearing, which hopefully I am sure you have been briefed on, if not watched. But Mr. Joggerts told the hearing, and the staff as well, that that deal would not have been entered into if it wasn't for falling short of first quarter revenue. Is that correct?

Mr. COHRS. I don't believe that is correct, sir. I think that the reasons I just described were the primary reasons for doing that transaction. It is true that that deal contributed significantly to our financial results, but it is certainly not the only reason that transaction was done.

Mr. DEUTSCH. If I could just one—just follow up to that question. Mr. Gorton, apparently I guess you shot down the deal. I mean, would that be your assessment as well?

Mr. GORTON. Obviously, it still flew. I was opposed to the transaction.

Mr. DEUTSCH. And could you describe the business purpose?

Mr. GORTON. I think—

Mr. DEUTSCH. Because really, again, the premise is—and our premise really is that—well, not our premise, but what we are really investigating, is the issue of sham transaction. There was not—because that is the key thing. If there was not a business purpose, a legitimate business purpose that is defensible, then I think we get into literally criminal activity at that point, because then the markets can't—there is not transparency.

So, I mean, was your—what were your objections to it? I mean, at that time.

Mr. GORTON. Well, I had heard many of the executives tell me what the business purposes of the transaction were, and I believed that those were good business purposes. The problem is the transaction as structured, to me, presented too much risk to the company. And the legal risk associated with a 360 bankruptcy, to me, outweighed any business purpose that you had for the transaction. So I believe that the company should not have entered into that transaction.

Mr. GREENWOOD. The time of the gentleman has expired. We will be doing another round, and we certainly want to explore that line of questioning.

The Chair recognizes the gentleman of the full committee, Mr. Tauzin, for 10 minutes.

Chairman TAUZIN. Thank you, Mr. Chairman.

Mr. Gorton?

Mr. GORTON. Yes, sir.

Chairman TAUZIN. When last Enron was here, Mr. Skilling gave us a similar line, that he hadn't sold all of his stock after all, so he couldn't be held responsible for knowing anything or dumping stock at the detriment of the Enron employees or the general investing public. In fact, he said he had more stock left after he made his sale. He sold, we were told, \$190 million worth of stock, netted \$112 million, but sat near where you are sitting saying, in effect, "But I didn't sell it all, so that was okay." Now you are the general counsel of the corporation. And Mr. Winnick comes to you and says, in effect, in this open window on May 23 when he decides, according to his words, to pull the trigger on a \$123 million sale of Global Crossing stock, you had some responsibility in advising him on whether that sale was appropriate, I suspect. Is that correct?

Mr. GORTON. Well, I had the responsibility to maintain the window inside the company and determine whether the window was open or was not open. Mr. Winnick—

Chairman TAUZIN. Is that all? Suppose Mr. Winnick had come to you and said, "I want to sell 70 percent of my stock," instead of 30, on that date, or "100 percent of my stock"? Would you have had any responsibility to the company and the corporation to advise him, "Mr. Winnick, that would kill the corporation? If the head of the company sells 70 percent or 100 percent, this company is gone tomorrow on the stock market." Would not that have been your advise?

Mr. GORTON. I don't believe that would have been my responsibility. But if I—first of all, I don't know that I knew the size of Mr. Winnick's transaction.

Chairman TAUZIN. Right.

Mr. GORTON. But if I had been told he were going to sell 100 percent of the stock, obviously, that would have a real impact on—

Chairman TAUZIN. In fact, selling as much as he did had a negative impact, did it not?

Mr. GORTON. It struck me that the market did not react favorably to—

Chairman TAUZIN. It reacted negatively, did it not?

Mr. GORTON. Right.

Chairman TAUZIN. And had he sold 40 percent or 50 percent, or 70 or 100 percent of his stock in the company, on May 23, right after on May 10 his executives have told the investment community everything is okay, "We are within our plans. And by the way, we are not making any—we didn't make any swaps in the first quarter." Tom Casey actually said that on May 10; I will quote it for you in a second.

On May 23, he sells 30 percent of his stock. Had he chosen to sell 70, 90 percent, or 100 percent right after on May 10 the heads—the offices in this company—Mr. Cohrs, you were on that



conference call, and I want to talk to you about it—actually told the investing public, “Everything is okay. We are within our plans.” You know, keep investing in Global Crossing, in effect. Had he come to you and offered—with a plan to sell more than 30 percent, significantly more, wouldn’t that have had disastrous effects upon the stock of that company?

Mr. GORTON. If he had decided to sell 100 percent of his stock, I believe my judgment would be that the market would not have reacted favorably to that.

Chairman TAUZIN. It would have caved. You know it. So this excuse that “I am keeping 70 percent. I only sold 30 percent. Therefore, everything was all right” is a little weak.

I want to go to you, Mr. Winnick, on this, because it is important for us to know what you did know on May 23 when you pulled the trigger on this \$123 million share. Did you know, for example, that on April 5—on April 5, Mr. Perrone—let me go back further than that—April 2. Mr. Perrone had reported first quarter results at the manager’s meeting that day, that there would likely be a half billion dollar shortfall in revenues.

Did you know that that information had come out at the manager’s meeting on April 2, and that Joe Perrone was going to investigate the causes of this half billion dollar shortfall? Did you know that?

Mr. WINNICK. I have no recollection of that.

Chairman TAUZIN. You didn’t know that. Did you know that on April 5 Mr. Perrone made his report? This is it here on Tab 5—Tab 7, rather—indicating that it was going to be a billion dollar shortfall. Did you know that?

Mr. WINNICK. Did that document come to me, sir?

Chairman TAUZIN. I am asking you. Did you ever see it? Did you know that Mr. Perrone made such a report?

Mr. WINNICK. I don’t believe that document ever came to me. Therefore, I don’t—

Chairman TAUZIN. I understand the document may not have come to you. Did you know that Mr. Perrone issued a report following the April 2 manager’s meeting indicating that the shortfall would be a little over a billion dollars?

Mr. WINNICK. No, I am not familiar with that.

Chairman TAUZIN. You didn’t know that? You already talked about this with the chairman. But on April 9, at a manager’s meeting, Tom Casey now reports to the managers, at which the Office of the Executive was there—Lod Cook was there, Tom Casey is reporting that the Office of the Chairman was there—that we need to treat this as a crisis, that it is a billion dollars off on revenue. Did you know that was reported at the manager’s meeting?

Mr. WINNICK. Just to comment, if I may—

Chairman TAUZIN. Yes.

Mr. WINNICK. —Chairman TAUZIN, you indicated before that I—on May 23, I sold 30 percent of my stock. I sold 10 percent of my stock.

Chairman TAUZIN. On that date.

Mr. WINNICK. Yes. I had sold—

Chairman TAUZIN. You had sold some before that?

Mr. WINNICK. [continuing] 20 percent of my stock going back to I think it was March 2000, and then——

Chairman TAUZIN. And that is fair.

Mr. WINNICK. [continuing] periods before that period.

Chairman TAUZIN. So it is not quite as big a chunk. It is 10 percent. Did it have a negative impact on the market?

Mr. WINNICK. I think the stock went down a little bit, yes.

Chairman TAUZIN. Suppose you had sold 30 percent, 50 percent, would it have gone down even more?

Mr. WINNICK. Well, I will tell you——

Chairman TAUZIN. The likelihood?

Mr. WINNICK. [continuing] I was very sensitive to how this would be done. I mean, I think one of the issues here which is at some point—should be—actually, I think it has been dealt with here, the disclosure requirements of when you need to—as a major executive in a company, when you need to disclose your sales.

As I told you, when I entered into the collar transaction, it was really a financial transaction. I didn't actually sell physical stock in——

Chairman TAUZIN. Well, yes, but you sold \$123 million worth of stock.

Mr. WINNICK. No, I sold 10 million shares in the company.

Chairman TAUZIN. Ten percent of your holdings.

Mr. WINNICK. Right.

Chairman TAUZIN. And the point I am making—and disagree with me freely, if you want to—executives like you don't have the freedom to sell all your stock any time you want. You don't have the freedom to sell the great majority of the stock any time you want. You know doggone well how Wall Street would treat that, wouldn't it?

Mr. WINNICK. Well, nor did I try.

Chairman TAUZIN. And you didn't try.

Mr. WINNICK. That is correct.

Chairman TAUZIN. So you sold what you could sell.

Mr. WINNICK. No. I sold what I—what was appropriate to sell to reduce a line of credit that had been drawn down.

Chairman TAUZIN. Okay. And what I am doing now is I am exploring what you might have known, or did know, on that date when you sold that substantial block of shares. And \$123 million is not chump change. It is a pretty big——

Mr. WINNICK. It is a significant amount, sir.

Chairman TAUZIN. Let me add, on that date, May 23, did you notify all of the employees that they ought to sell 10 percent of their shares that day?

Mr. WINNICK. Well——

Chairman TAUZIN. Did you notify anybody that they ought to sell? "I am selling; you better sell, too"?

Mr. WINNICK. Well, my job is not to tell people to——

Chairman TAUZIN. No, but you didn't do that.

Mr. WINNICK. [continuing] sell or buy.

Chairman TAUZIN. Right. You didn't do that.

Mr. WINNICK. But——

Chairman TAUZIN. So did you know——

Mr. WINNICK. [continuing] that is not my——

Chairman TAUZIN. [continuing] on April 9—

Mr. WINNICK. Excuse me, Chairman Tauzin.

Chairman TAUZIN. Yes, sir, please finish.

Mr. WINNICK. Let me answer that, please.

Chairman TAUZIN. Yes, sir.

Mr. WINNICK. When I sold—when they entered into this collar transaction, which effectively sold stock, it was during a window period. I had a conversation with Tom Casey relating to did he still feel comfortable with his guidance for the quarter, and was he still comfortable with his year. And he said to me, yes, he was. I relayed that conversation—

Chairman TAUZIN. Tom Casey did not tell you at that point, “We are going to be a billion short”?

Mr. WINNICK. I asked him if he was comfortable—first of all, the billion short is—I don’t know where this comes from, because as we said before in May, May 9 I think it was, Joe Perrone had given updated information to both Tom Casey and Dan Cohrs, so that they could have—be fully informed when they were having their analyst call the next day or two, where they reiterated their guidance for the quarter and for the year.

Had there been, in their view, a significant shortfall, notwithstanding this billion dollar number, sir, that you use, but certainly even less than that would be more than sufficient, then it would have been inappropriate to confirm the guidance on the May call.

Chairman TAUZIN. I should think so. And we are going to talk about that in a second, because I want to know what you knew about that May call, and what Mr. Cohrs knew, and what actually happened that day. But I want to specifically ask you: did you know or not know that on April 9, at the manager’s meeting, that Tom Casey reported there would likely be a billion dollar shortfall in revenue?

Mr. WINNICK. No, I can’t say to you that I had—

Chairman TAUZIN. You did not know that on May 23 when you sold your stock?

Mr. WINNICK. I don’t have—and I would have, I believe, a clear recollection of that. I have none.

Chairman TAUZIN. All right. Let us go to the—to Tab 10, where on April 16 Tom Casey states, in effect, that we do not have more room for these reciprocal deals.

Mr. WINNICK. Where are we looking now?

Chairman TAUZIN. He is sending a clear warning on Tab 10.

Mr. WINNICK. What page?

Chairman TAUZIN. Tab 10. I am not sure of the page. But it is, again, another manager’s meeting on April 16, where Tom Casey states that these—that the commitments made in the first quarter had “a material impact on cash plan and k-pac, and we do not have more room for these reciprocal deals.” Were you aware of that? That is on page HEC40147 of the manager’s meeting that day.

Mr. WINNICK. Chairman Tauzin, what page are you looking at on that?

Chairman TAUZIN. It doesn’t have a page number. It had—

Mr. WINNICK. I mean, just—I mean, it is—

Chairman TAUZIN. It is the manager’s meeting April 16, Tab 10, and it is marked “Confidential, GX HEC40147,” Tab 10.

Mr. WINNICK. 4047?

Chairman TAUZIN. 40147. It has a list of those present, and then discussion items, and then you have a report from Tom Casey indicating that these first quarter reciprocal deals had "a material impact on cash plan and k-pac budget. We do not have room for more reciprocal deals." Were you aware that Tom Casey made that report to the manager's meeting of April 16?

Mr. WINNICK. I don't have a recollection of that. But I don't think Tom was——

Chairman TAUZIN. Again, you speak to him daily, and you did not know he was making that report to the manager's meeting?

Mr. WINNICK. No.

Chairman TAUZIN. Had you known that, had Casey told you that. "We don't have room for any more of these deals," would you have participated in trying to get any more of these deals?

Mr. WINNICK. Well, again, I can't tell you in the context. I think, Chairman TAUZIN, it is a little unfair to—for me to paraphrase a conversation——

Chairman TAUZIN. I am just asking you if you knew about it.

Mr. WINNICK. Well, there were people on this panel that were on this call.

Chairman TAUZIN. I realize that. I am asking what you knew. I want to know what you knew from Tom Casey. Tom Casey is talking to you every day, but he is making these rather incredible statements at manager's meetings that the company—you have to treat this as a crisis. It is going to be a billion dollars down.

Joe Perrone is issuing the report saying it is going to be a billion—it went from a half billion to a billion in just a matter of days. And you are telling me you were totally unaware of this, that Casey never told you this, and that you were never made aware that you couldn't do any more of these deals because it was so negatively impacting the ability of the company in terms of its cash and its capacity? You were not aware of that?

Mr. WINNICK. I was there to help and assist any of the executives in any way they could, or I could. Tom did not tell me he didn't have more capacity to do reciprocals. I do not have any recollection of anyone giving me information relating to shortfalls of a billion dollars or cost excesses of a billion dollars.

Chairman TAUZIN. So you didn't know that. Tab 14 now. Go to Tab 14. Tab 14 is a confidential memo from Kurt Rossi to Joe Perrone.

Joe, are you following along with us? Tab 14. This is a memo to you.

It is from Hank Milner, and it is addressed to Gorton, Jim, etcetera, Mr. Perrone, and Mr. Cohrs. Mr. Cohrs and Mr. Perrone, do you remember receiving this memo from Frank Milner as an e-mail?

Mr. PERRONE. Yes.

Chairman TAUZIN. Mr. Cohrs?

Mr. COHRS. I have reviewed this in preparation for the hearing.

Chairman TAUZIN. Do you remember it?

Mr. COHRS. No. At the time—I actually didn't see at the time, but I remember—I have reviewed it in preparation for the hearing.

Chairman TAUZIN. The subject is—Mr. Cohrs is on it. So you got it. You are on the list of receiving the e-mail, so you did get it.

Mr. COHRS. I understand. I was not in the office at—

Chairman TAUZIN. The subject is Debt Covenants and Capacity Sales. It is, again, a dire warning. This is May 17. It says that additional debt from these categories could be significant and result in covenant violation. What is a covenant violation, guys? What does that mean?

Mr. Perrone? You were with Arthur Andersen. What is a covenant violation?

Mr. PERRONE. That just relates to the requirement of financial performance under our various loan agreements that we were required to maintain.

Chairman TAUZIN. Yes. In fact, it goes on—the memo goes on to say, “The consequences of violating this financial covenant are severe.” That is highlighted—severe—big words. “And the time period to which—in which to fix it is short,” again emphasized. So time to fix it is short. “First quarter financial statements are due to the banks on May 30, 2 weeks. A violation would be immediate, in the event of default, with no cure period.” It goes on to say, “Global Crossing would immediately lose the ability to borrow.”

It says, “The lenders would either terminate their commitments under the facility and make the loans immediately due and payable, or both.” It goes on to say that lenders would accelerate their loans, which would be a cross acceleration of Global Crossing’s \$3 billion of senior notes. This is a pretty dire set of warnings, is it not?

Mr. COHRS. Chairman Tausin, if I may, this memo did not forecast a violation of loan covenants. It was based—it was also based on imprecise estimates as it says in this memo.

Chairman TAUZIN. That may have been wrong.

Mr. COHRS. When the actual certificate—

Chairman TAUZIN. That may have been wrong, but it was a pretty dire—

Mr. COHRS. If I may finish.

Chairman TAUZIN. Finish.

Mr. COHRS. The actual certificate of compliance that was filed, the ratio that was estimated here as 4.71, which was close to the requirement, was, in fact, reported to the banks as 3.54, which was not close to the requirement.

Chairman TAUZIN. Would you go to the next page?

Mr. COHRS. This memo was based on incorrect and imprecise and preliminary estimates that, in fact, did not forecast a violation of loan covenants.

Chairman TAUZIN. Would you go to the last page, Mr. Cohrs?

Mr. COHRS. Yes.

Chairman TAUZIN. Did you write this e-mail back? This is—

Mr. COHRS. No, actually, I wrote that e-mail before—

Chairman TAUZIN. Sent May 12. Did you send this e-mail?

Mr. COHRS. [continuing] before the prior e-mail.

Chairman TAUZIN. Right.

Mr. COHRS. Yes, I did send that e-mail.

Chairman TAUZIN. And doesn't this e-mail basically say that, "We will be tight on our bank covenant as we go through this year"?

Mr. COHRS. This e-mail says, "We will be tight on our bank covenant as we go through the year." This was based on the same information that Mr. Milner wrote his subsequent e-mail on, which, as I just said, was preliminary and imprecise and turned out to be significantly too pessimistic compared to the actual results that were filed when we completed it and closed the books.

Chairman TAUZIN. All right. But this was what you knew at the time, is that right? On May 12—

Mr. COHRS. That is correct. That is what I—

Chairman TAUZIN. [continuing] you said it was going to be tight.

Mr. COHRS. This—

Chairman TAUZIN. On May 16—

Mr. COHRS. [continuing] is what I knew at the time.

Chairman TAUZIN. —Mr. Milner says, "This could be significant." We don't know.

Mr. COHRS. Milner, unfortunately, as we know, had very preliminary, imprecise information, which it says in his e-mail is based on imprecise estimates.

Chairman TAUZIN. Given all that—

Mr. COHRS. You can look at it in his e-mail.

Chairman TAUZIN. Given all that, Mr. Winnick, are you aware of these e-mails, these concerns about covenant violations in the numbers, and the debt growing too fast?

Mr. WINNICK. No.

Chairman TAUZIN. You were not aware of that either?

Mr. WINNICK. I have no recollection of a problem with covenants.

Chairman TAUZIN. Let us go to—

Mr. WINNICK. By the way—

Chairman TAUZIN. Go ahead.

Mr. GREENWOOD. Please pull the microphone forward. Thank you.

Mr. WINNICK. —Chairman TAUZIN, one of my obligations as the Chairman of the Board of this company is if there was something remotely resembling a violation of a covenant, would be to bring it to the board's attention immediately, notwithstanding management's position. It is not something that we would ever take very lightly. It is the heart and soul of the business.

Chairman TAUZIN. So do you know whether these concerns were brought to the attention of the board?

Mr. WINNICK. I know, in fact, they weren't.

Chairman TAUZIN. So you—

Mr. WINNICK. By me, because they weren't brought to my attention.

Chairman TAUZIN. All right. Let us go to the 360 deal, Mr. Gorton. You called Dan Cohrs and Joe Perrone to go over the financial perspective on this call, and you opposed it. Why did you oppose it?

Mr. GORTON. I believed that the transaction, as it was structured, posed too much legal risk on Global Crossing and economic risk on Global Crossing, if 360 were to file for bankruptcy.

Chairman TAUZIN. Did you think 360 was a candidate for bankruptcy?

Mr. GORTON. Oh, I did. I think everybody thought 360 was a possible candidate for bankruptcy. I do want to say that that risk was something that wasn't settled law. The structure of these transactions were IRU transactions, and you couldn't really get any lawyer to give you an opinion as to whether that is a service contract on the one hand or an asset purchase on the other.

Chairman TAUZIN. Right. But the bottom line was this was the last day to do this deal—

Mr. GORTON. I think that was maybe—

Chairman TAUZIN. [continuing] when it was done, right?

Mr. GORTON. [continuing] the day before the last day, I think.

Chairman TAUZIN. That was right down to the wire if you are going to get it in the first quarter, right?

Mr. GORTON. That is correct.

Chairman TAUZIN. Did either Mr. Cohrs or Mr. Perrone tell you that if the company was going to make their first quarter numbers this deal had to go through?

Mr. GORTON. Yes, that was mentioned to me on the call.

Chairman TAUZIN. Do either one of you guys want to challenge that statement? Mr. Cohrs?

Mr. COHRS. Chairman TAUZIN, as I said earlier, the numbers that we generated with that transaction, which was for good business reasons, were important to us making our numbers.

We also knew at the time—we suspected at the time that if we didn't make that transaction in the first quarter that it might not be available to us in future periods, and that 360 may not do the transaction on the same terms, which we thought were quite favorable to us and we needed the capacity on very—with very short lead times, as I testified earlier.

Chairman TAUZIN. Now, Mr. Perrone, did you also recall basically saying that, if you are going to make numbers, you have got to do this deal?

Mr. PERRONE. I don't recall that specific comment, but I think—

Chairman TAUZIN. Do you deny it?

Mr. PERRONE. No. I think it was generally known that we would—that size of a deal would be needed to make the numbers for the quarter.

Chairman TAUZIN. And, Mr. Gorton, do you remember Mr. Winnick telling Bill Conway in the conversation in the meeting that in order to make the numbers they have to approve the 360 transaction?

Mr. GORTON. That was at the executive committee conference call, which was the following day, I believe.

Chairman TAUZIN. The following day.

Mr. GORTON. Yes, sir.

Chairman TAUZIN. And you recall that.

Mr. GORTON. Yes, sir.

Chairman TAUZIN. Mr. Winnick, do you recall that?

Mr. WINNICK. Well, I recall for—not as you stated, Chairman TAUZIN.

Chairman TAUZIN. How do you recall it?

Mr. WINNICK. As a matter of disclosure to Mr. Conway that this was a transaction that was included in the quarter, and that was disclosure, not for, as has been suggested, any other reason.

Chairman TAUZIN. I want to go—and, actually, this deal is done. Now, Mr. Winnick, people were invited to leave the conference call at some point before the deal was approved. Were you the one that asked people to get off the phone? Who did that?

Mr. WINNICK. I don't remember, but I will take the credit for that.

Chairman TAUZIN. Okay. Who was invited to get off the phone?

Mr. WINNICK. Well, first, it is important to—sir, to set up how this one was done. I was asked by Tom Casey to convene an executive committee of the board, which was made up of four people—myself, Lod Cook, Tom Casey, and Bill Conway. Lod, I believe, as I found out subsequent in terms of preparation for today, was not there that day, which, in fact, would have required that any vote would have been unanimous. We would have needed a unanimous vote on this transaction.

Tom briefed me on the transaction. I, too, shared Jim's concern that 360 was a little dicey as a credit risk. There was not a lot of concern in terms of the business case. But more specifically to your question, management, which is—there were, I don't know, half a dozen, a dozen people on the call, with Tom Casey and Bill Conway and myself—made a presentation on the deal. And they never would have convened an executive committee of the board to approve a deal that, in fact, they weren't interested in approving.

As Jim Gorton has pointed out, and I think Jim is a—served Global Crossing extremely well and is extremely competent and thorough—had indicated that there was some financial risk. And I said the same thing, and Bill Conway said the same thing.

So it was after the management team made their presentation that I thought it appropriate—and it was—by the way, there were suggestions on how we could mitigate some of this risk. It was appropriate that the executive committee would go into closed session, which I don't want to be as formal about it as it sounds, so Bill Conway could talk to Tom and myself openly about his concerns.

Bill, as I recall, approved the transaction. And for those who know Bill Conway, he is a very serious businessman, and he does not—he does not succumb to pressure. He is principled and moral, and he will do what he thinks.

Chairman TAUZIN. Mr. Winnick?

Mr. WINNICK. He approved this transaction.

Chairman TAUZIN. I am going to have to—the chairman is signaling me. I am going to have to wrap up, and I want to do one more thing.

Mr. WINNICK. Okay. I am sorry.

Chairman TAUZIN. I just want to make the case—make a couple of questions, if you will just answer them quickly for me. Did you characterize Mr. Gorton's position on this deal during this call as being signed off on it?

Mr. WINNICK. It didn't require Jim's approval.

Chairman TAUZIN. I don't know whether it did or not. But did you characterize him as signing off on the deal?



Mr. WINNICK. We didn't take a vote of the management team.

Chairman TAUZIN. Mr. Gorton, did Mr. Winnick characterize you as signing off on the deal?

Mr. GORTON. My recollection is that in response—after the management presentation of the transaction, Mr. Conway asked a question relating to the legal issues surrounding the deal.

Chairman TAUZIN. Yes.

Mr. GORTON. And Mr. Winnick had indicated that Jim Gorton—me—who was on the line had worked on the transaction and had signed off on the deal. I don't know if he got to finish that statement, because I actually stepped in and cut him off and—

Chairman TAUZIN. You stepped in and made it clear that you didn't think the deal should go through.

Mr. GORTON. Well, I stepped in and really set forth the legal concerns that I had about the transaction.

Chairman TAUZIN. But before I yield, I just want to do one quick thing now, because I want to take you to that May 10 conference call. And, Mr. Cohrs, you are on it. This is the call with the investors, right? May 10, Mr. David Tecata asked the question—you didn't talk on this conference call about I guess—I forgot your term—the kind of—the regional swaps of capacity by some of your carrier customers.

Specifically, Mr. Casey responds—this is, by the way, Tab 13, if you want to follow. Mr. Casey responds, "Okay, Dave. First, with respect to regional swaps, we did no swaps of capacity back and forth between carriers." Was that a correct statement?

Mr. COHRS. Chairman Tauzin, the question specifically asked about regional swaps. Earlier in that conference call, there had been a question about what we call global network offers, which gives our customers the right to purchase capacity and then exchange that capacity from one part of our network to another.

The fact that he asked about regional swaps, in particular, indicated to us that he was asking about that type of transaction. Now, the statement about swaps in general I think I should address, however, because the word "swap"—

Chairman TAUZIN. But you had done regional transactions in the first quarter, had you not? You had done regional swaps.

Mr. COHRS. No, not to my knowledge.

Chairman TAUZIN. Reciprocal—you had done reciprocal transactions in the first quarter, right?

Mr. COHRS. We had not done what would be referred to as regional swaps, which is my understanding of what the question addressed. With respect to the term "swaps"—

Chairman TAUZIN. Yes.

Mr. COHRS. [continuing] in the context it was normally used, referring to these concurrent transactions, swaps is an accounting term. And we were advised specifically by our independent auditors that the transactions that we were doing were not swaps, that they were accounted for at fair value—

Chairman TAUZIN. You were on the phone call. Did you see any need to clarify that point to the people on the phone?

Mr. COHRS. Not in response to a question about regional swaps. No, sir.

Chairman TAUZIN. Now, later on—I will wrap it—Mr. Cohrs, you said, at some point, with reference to the capital spending commitments and their effect on revenue, “It actually fits into our business plan.” That is your quote on the third page of this, in the middle of this conversation.

Mr. COHRS. I don’t see the transcript in front of me, but—

Chairman TAUZIN. Tab 13. This is your quote when talking about the spending commitments during the quarter and how it affected revenue. You said, “It is really—actually fits into our business plan.” When you made that statement, were you aware of all of the warnings about threats to the company because of the”—

Mr. COHRS. Could you help me find the—I am just trying to find the reference.

Chairman TAUZIN. Page 3.

Mr. COHRS. Page 3?

Chairman TAUZIN. It is the—wait, I will find it for you. I think it is the last page, the last page of Tab 13. You were being asked about capital spending commitments in the quarter and how they would affect revenue, and you said, “It actually fits into our business plan,” which was a—which sounds like an assurance to consumers or to investors that these challenges presented by these swaps and these agreements were actually part of your business plan and everything was okay. Were you aware that Tom Casey and Mr. Perrone were predicting a billion dollar shortfall when you made this statement?

Mr. COHRS. Chairman Tausin, if I may, I would like to address the billion dollar shortfall, which I think is getting a lot of attention.

Chairman TAUZIN. That will be the last, Mr. Chairman.

We want you to do that, Mr. Cohrs. But also, if you address—

Mr. COHRS. If I could answer your question—

Chairman TAUZIN. I want you to address the billion dollar shortfall, but then I also want you to answer the question as to whether or not you were aware of those warnings when you made the statement that everything was okay, that—

Mr. COHRS. Well, sir—

Chairman TAUZIN. Because you were in those meetings. Would you go forward, please.

Mr. COHRS. Sir, the question from Luanne Surlow, as I am looking at it here, asked—I believe her question essentially was asking, as we acquired these assets in the reciprocal transactions, were we increasing our revenue forecast? My response was, “No. These fit within our business plan.” That is, we are not increasing our revenue forecast as a result of these transactions. That is what that exchange meant.

Now, as to the billion dollar shortfall, the billion dollar shortfall, which is in these notes from April 9, April 16, etcetera—

Chairman TAUZIN. Yes.

Mr. COHRS. [continuing] is a reference to shortfalls from our budget, not from our public guidance. At this time, our budget was significantly higher. Our revenue budget was approximately \$700 million higher than our external guidance. In other words, our external guidance was much more conservative than our budget.

In these meetings, it is very clear to me that Tom Casey was referring to shortfalls from the budget, not from external guidance.

Chairman TAUZIN. But if I can——

Mr. COHRS. It is also clear to me——

Chairman TAUZIN. If I can wrap, Mr. Chairman——

Mr. COHRS. [continuing] that in the May 9 meeting, the David Walsh forecast that suggests a billion dollar shortfall had not been reviewed by anyone, because I asked him a question, which is in these notes. And I asked him, “How much of that forecast is service revenue, and how much is IRU?” It is very clear to me that that forecast was coming from David Walsh alone. It had not been reviewed by the finance organization or anyone else. It was a very preliminary forecast, and it was a reference to shortfalls from budget, not external guidance.

Chairman TAUZIN. Mr. Chairman, if I can wrap, what concerns all of us—and, Mr. Winnick, that is why I asked you what you knew of all of this, is that you had all of these warnings, and whether they are preliminary or whether they are accurate or not, you had all of these warnings, and they reach people at least as close as Lod Cook and Tom Casey. They get all that far up the line, and they come in the form of reports.

They come in the form of notes at management meetings. They come in the form of e-mails and warnings. And yet the head of the company is here today saying he didn’t have any recollection of any of that, didn’t know any of that. He just decided to pull the trigger on May 23 and sell 10 percent of his holdings in the company stock.

I have got a graph of the stock, Mr. Winnick, if you will look at it with me.

Mr. Chairman, this is it.

Mr. WINNICK. I can’t see that from here.

Chairman TAUZIN. You have got a hard time seeing it. I will try to depict it for you. But this is the graph of Global Crossing’s stock, and it was going up at this point, and that is the date you sold. And it started a down slide, and it has never recovered. It just went down and stayed down, continued going down from the date you sold this amount—when you pulled that trigger on May 23 and sold your stock.

And the burning question out there that I still have not gotten a good answer to. I wish Mr. Casey were available. I wish he could be here to help us understand it.

Mr. WINNICK. Well, we wish——

Chairman TAUZIN. Of course. But how Mr. Casey was aware of all of these dire warnings, and how so many other people in the corporation were sending e-mails and concerned about the covenants being violated, even though those were preliminary numbers, and the head of the corporation, who is about to make a sale that theoretically at least had a pretty nasty effect on the company’s stock for all of those who invested in it, including those employees we heard from—the head of the company never hears any of those warnings, doesn’t know, doesn’t recall, can’t remember, wasn’t at those meetings. Tom Casey never told me that, and nobody ever told me that. It is a little hard for us to understand how

a corporation can function like that, and how you, Mr. Winnick, could be at the head of this corporation and be so out of the loop.

I have run out of time. But when we come back, I am going to take you through some documents which indicate that you really were in the loop, that you were actively participating in these deals, in these swaps, and actually encouraging everyone else to make calls and try to make these swaps occur. And I will get you to comment on that.

Thank you, Mr. Chairman.

Mr. WINNICK. I look forward to that.

Mr. GREENWOOD. The time of the gentleman has expired.

The Chair is going to recess the committee for 5 minutes. Members have been here for a long time, and we will give you a 5-minute rest break, and then we will convene with—we will return with Ms. DeGette's questions.

[Recess.]

Mr. GREENWOOD. The committee will come to order. Guests will please be seated. And the Chair recognizes the gentlelady from Colorado for 10 minutes to inquire.

Ms. DEGETTE. Thank you, Mr. Chairman.

Mr. Winnick, you started Global Crossing in 1997, if I am not mistaken, correct?

Mr. WINNICK. Yes.

Ms. DEGETTE. And before that, you were running an investment firm called the Pacific Capital Group, which I guess still exists, from what I have been told.

Mr. WINNICK. That is correct.

Ms. DEGETTE. Now, when you started Global Crossing, your vision, as I understand it, was to create a global telecommunications company, correct? Would that be a fair characterization?

Mr. WINNICK. Not initially.

Ms. DEGETTE. Okay. Why don't you tell me what your initial vision was.

Mr. WINNICK. Initially, we—my partners and myself financed an undersea cable across the Atlantic Ocean.

Ms. DEGETTE. Right.

Mr. WINNICK. And it was from that, and the early success of that, which had not been done privately in some 125 years, that brought us into an opportunity to build a global platform.

Ms. DEGETTE. And, really, your vision, though, was to have a global telecommunications company at that point, correct?

Mr. WINNICK. That is what we built.

Ms. DEGETTE. Right.

Mr. WINNICK. Yes.

Ms. DEGETTE. I mean, that was your vision, and then that is what you built.

Mr. WINNICK. Right.

Ms. DEGETTE. And you acquired some other telecommunications companies, and then, in 1999, you acquired Frontier, correct?

Mr. WINNICK. I believe Frontier may have been our first transaction. Is that correct, Dan?

Ms. DEGETTE. Okay. Oh, all right. But you also acquired some other companies.

Mr. WINNICK. Yes.

Ms. DEGETTE. And all of that was part of your vision to create kind of a global telecommunications company, right?

Mr. WINNICK. It was to be part of that, yes.

Ms. DEGETTE. Okay. I am not trying to give you trick questions.

Mr. WINNICK. No, no, no. I understand that.

Ms. DEGETTE. Okay.

Mr. WINNICK. I understand that.

Ms. DEGETTE. And Frontier, as I understand it, was a local telephone company that served the Rochester area, and also had some contracts for wire around the United States in some other markets. Is that accurate?

Mr. WINNICK. Well, Frontier was really a few businesses, if I may.

Ms. DEGETTE. Right.

Mr. WINNICK. It had started as Rochester Telephone over some hundred years ago.

Ms. DEGETTE. Right.

Mr. WINNICK. And it had what they referred to as a local exchange business.

Ms. DEGETTE. Right.

Mr. WINNICK. Telephones in the local markets.

Ms. DEGETTE. Right. They were the local telephone company.

Mr. WINNICK. They were like—as Qwest is in Denver.

Ms. DEGETTE. Right. Exactly. Qwest took over US WEST, which took over Ma Bell is what we called it, which was the local telephone company.

Mr. WINNICK. But Frontier, unlike other ILECs, also made an investment in building a U.S. terrestrial fiber optic network.

Ms. DEGETTE. Right. That is what I was just saying in my—

Mr. WINNICK. Yes.

Ms. DEGETTE. [continuing] lay person's terms.

Mr. WINNICK. Yes.

Ms. DEGETTE. And so, really, this was part of your vision not just to have the undersea cable, but really to have a presence within the United States with local phone service and long distance phone service, right?

Mr. WINNICK. That is correct.

Ms. DEGETTE. Similar to Qwest, right?

Mr. WINNICK. That is correct.

Ms. DEGETTE. And let me ask you, when—I guess during the timeframe we are really dealing with, the 1999 to 2001 type of timeframe, how big was your board of directors?

Mr. WINNICK. Twelve, 15 people.

Ms. DEGETTE. And as I understand it, every person at this table was on that board of directors at some point. No?

Mr. WINNICK. There is no one—

Ms. DEGETTE. Mr. Cohrs is shaking his head.

Mr. WINNICK. Well, many of the people at this table were invited to board meetings. Certainly, Jim Gorton, our general counsel, would be there, and Dan Cohrs would be there.

Ms. DEGETTE. Okay. Who was on the board? Who sitting here?

Mr. WINNICK. None of the members of this table, outside of myself, were board members.

Ms. DEGETTE. I see. So your board of directors, they were all outside directors?

Mr. WINNICK. No, there were some—there were some inside people.

Ms. DEGETTE. Okay. Who were the inside people?

Mr. WINNICK. The CEO.

Ms. DEGETTE. Okay.

Mr. WINNICK. And they changed, as you know, but—

Ms. DEGETTE. Right. Like four of them in 5 years, as I understand.

Mr. WINNICK. Maybe five, because I was the CEO for this company before it was a public company.

Ms. DEGETTE. Okay. Five in 5 years. Okay.

Mr. WINNICK. But the CEO; my co-chairman, Lod Cook; Joe Clayton, who had been the CEO of Frontier Corporation—

Ms. DEGETTE. And what was his—

Mr. WINNICK. [continuing] was a board member.

Ms. DEGETTE. He was a board member. And what was his title within the company?

Mr. WINNICK. He was the President of—I believe of North America. Maybe David could help me on that, but I believe he was the President of North America. And then at some point he also became Vice Chairman of the Board.

Ms. DEGETTE. Okay. So how many outside directors did you have? People who were not also employed by the company?

Mr. WINNICK. The majority of the people were certainly not employees.

Ms. DEGETTE. Mr. Chairman, I would ask unanimous consent if I could ask Mr. Winnick to supplement the record with the lists of everyone who served on the board from 1999 until the present and what—and if they worked inside the company, what their title was.

Mr. GREENWOOD. Mr. Winnick, can you do that for us?

Mr. WINNICK. Do you mean from memory?

Ms. DEGETTE. No, no.

Mr. GREENWOOD. No, no, no.

Ms. DEGETTE. If you could supplement the record and provide us with that information.

Mr. GREENWOOD. We are asking that subsequent to today's hearing—

Mr. WINNICK. Just send it to you? Oh, absolutely. Absolutely.

Mr. GREENWOOD. The staff will formulate that question—

Ms. DEGETTE. Thank you very much.

Mr. GREENWOOD. [continuing] and document and—

Ms. DEGETTE. Thank you, Mr. Chairman.

Mr. WINNICK. If you get that to Mr. Ferrara at Debevoise, we will certainly make that available.

Ms. DEGETTE. Great. Thank you.

Now, I would like to talk particularly about the audit company—I am sorry, the audit committee of your board. Who was the chairman of the audit committee of your board in 1999?

Mr. WINNICK. I believe it was Bill Conway. Oh, no, no, I am sorry. There were two principal audit committee chairmen. One was a gentleman from Loew's Corporation, who was one of the original investors in the company.

Ms. DEGETTE. Okay. And who was that?

Mr. WINNICK. His name was Hillel Weinberger.

Ms. DEGETTE. And what was his term as chairman of the audit committee?

Mr. WINNICK. From the inception of the company, as a private company—

Ms. DEGETTE. Right.

Mr. WINNICK. [continuing] up until I think maybe February/March, sometime in that timeframe, 2000. Is that right?

Ms. DEGETTE. And then who was the chairman of the audit committee?

Mr. WINNICK. He was the chairman of the audit committee. And then, when he left the board—

Ms. DEGETTE. Right.

Mr. WINNICK. [continuing] and the reason he left the board—

Ms. DEGETTE. Okay. I don't need to know that.

Mr. WINNICK. Okay.

Ms. DEGETTE. I only get 10 minutes.

Mr. WINNICK. Okay. I am sorry.

Ms. DEGETTE. Who succeeded him?

Mr. WINNICK. And then I believe Bill Conway—

Ms. DEGETTE. Bill Conway?

Mr. WINNICK. [continuing] a senior partner of the Carlisle Group.

Ms. DEGETTE. And how many members of the audit committee are there?

Mr. WINNICK. At least three.

Ms. DEGETTE. Okay. Now, I was thinking about something as I was listening to Ms. Crumpler and Ms. Smith's testimony about working for the phone company for 20 years or longer, and working there for a long time, and it is the phone company. And then, all of a sudden, new people come in and it changes.

And what I was thinking about is, what was similar with Qwest and Global Crossing, and maybe some other companies, is you all were coming in, you were trying to kind of bring the local phone company into the new era of communications. Would you think that would be fair to say?

Mr. WINNICK. No.

Ms. DEGETTE. No? Okay. I mean, because Frontier or Mountain Bell, they didn't have international wire. They didn't provide long distance phone service around the world, did they?

Mr. WINNICK. No, and they weren't permitted to.

Ms. DEGETTE. Exactly. And so after the Telecom Act, what happened was new companies came in, and they wanted to really update and expand the services of the old companies, and that is what you were trying to do, isn't it?

Mr. WINNICK. Yes, and certainly, as you point out, lower the cost to the consumer.

Ms. DEGETTE. Right.

Mr. WINNICK. Which was an end product.

Ms. DEGETTE. So when for whatever reason—and you and us, we might have disagreements why—when the telecommunications industry started to go south and lose money, thousands of people at your company lost their jobs, people like Ms. Crumpler, isn't that so?

Mr. WINNICK. Well, as—and let me say to Ms. Crumpler that I sat here and I heard her very loudly, and I am very saddened by this tragedy that has fallen upon her and other hardworking people of the company. And it has not gone unnoticed by me.

Ms. DEGETTE. Well, hang on a minute. I know you feel bad, and I can sense that you really do. But—and Ms. Crumpler didn't lose her job, but others did lose their jobs. Ms. Crumpler only lost her retirement, and I guess my question to you is: what does the company now intend to do for all of these thousands of employees who thought they were working for the phone company? But, as Ms. Smith said, they thought it was a solid local citizen, and it turned out to be a really edgy place to work.

Just as an aside, we have had—as you know, we have had a lot of startup telecom around my district, most of which is either bankrupt or out of business now. And I knew a lot of people that went to work for those companies. And what they said is, "Look, you know, to a person"—the people I knew, they said, "Look, I know this is a risk. You know, either I am protected through some other way; I have had another job." Or they said, "I know that I could lose everything, and I prepared to take that risk." And now they have taken the risk.

But these folks—Ms. Crumpler and Ms. Smith and these other people—they weren't that way. You know, they thought they were working for the phone company. Aside from feeling sorry, what is it that you intend to do to make them whole?

Mr. WINNICK. Well, Ms. DeGette, I wasn't intending on doing this at this particular hearing, but I need to speak from the heart on this, if I may—

Ms. DEGETTE. Thank you.

Mr. WINNICK. [continuing] and make a comment here that is—gives me a chance to make a point.

Ms. DEGETTE. Thank you.

Mr. WINNICK. And a statement. This is not about money. This is about people. It is always about people. My whole life, it is always about empowerment of people. Yes, I made a lot of money. But when I went into this venture, building a cable across the Atlantic, I had no contemplation that this thing would turn out to be what it was. I am both proud and I am saddened by it.

You can't take the money with you. As you know, I am living in an environment that is very litigious, to say the least. There are over 70 lawsuits filed against me and my colleagues and associates. There is a number of government investigations, in addition to our own internal investigations conducted by our special committee.

And they will all come to a determination of what the facts were and what the facts are. And that is here, and that is important, and the findings of this committee are important.

But the only legacy that I am going to leave this planet with is my name and the name I have given to my family, my wife of 30 years, who is with me in Washington today, and I asked her not to come to this hearing because I didn't want her to see me beaten up and grilled and embarrassed and things said about me that are not true. And I appreciate this committee's conduct with me today, which has been very professional and very above board.



But at the end of the day, I came here to testify in front of this committee because you need to hear from me. Whether you like the answer or you don't, that is your determination. I need to tell you what I feel and think.

Ms. Crumpler, as well as these other people that worked in our company, whether they worked there for 2 days, 10 years, or 30 years, they were part of our family. And as the head of this company, I let them down. Not because we engaged in fraud, not because we engaged in insider trading, not because we engaged in chicanery. We ran our business, and we ran into a very difficult economic period.

In fact, Mike Armstrong, on The Charlie Rose Show over the summer, talked about how the world came to an end for him and his company in the summer of 2001. That was the period that our company got hung up, in the third quarter. And, in fact, there were three or four transactions that would have put us well over the quarter—reciprocal, call them what you may—and they were all rejected, and they did not meet business purposes.

But I want to go back to Ms. Crumpler. And I think my numbers are accurate. And this is just the beginning. Since the time of the acquisition of Global Crossing of the Frontier Corporation, 14,000 men and women around the world contributed \$25 million to the 401(k) plan of the company. I discussed this with my wife. She is in complete support. I am personally, along with my family, going to guarantee \$25 million to the people who have lost their money in their 401(k) plan. They had nothing to do with the loss.

I call on chairmen and CEOs of every other company—Qwest, XO Communication, McLeod—every one of these companies has strong and viable partners, whether they are chairmen, CEOs, or just significant shareholders, and I call on every other chairmen and CEO and significant investor in any company in this country where employees lose money, step up and write a check, because the only thing you are going to leave in this world is your legacy of who your name is.

So today I make a commitment to every employee of Global Crossing who committed and contributed to the 401(k), which the number I am told is just a little bit shy of \$25 million, I am personally, along with my family, going to write a check to the administrator of that plan, so that the Ms. Crumplers and others of the world who worked hard for this company do not go unnoticed.

Ms. DEGETTE. Mr. Winnick, I don't think there is much more that needs to be said. And I can tell you are speaking from the heart. I can tell Ms. Crumpler and her colleagues will appreciate this. And I yield back my time.

Mr. GREENWOOD. The Chair thanks the gentlelady, and the Chair recognizes the significance of that statement, Mr. Winnick. It is magnanimous. It is one of leadership. And I think you have just shocked a lot of people, and you ought to be proud of that.

However, the hearing goes on, because there are other issues at stake. The fact of the matter is that it wasn't just the employees who lost \$25 million. It was investors who lost I think \$54 billion as a result of the collapse of Global Crossing.

And it is the function of this committee, the purpose of this committee, to try to understand how that happened, so that it doesn't

happen in the future, and so that we don't have Ms. Crumplers and others in the future in this kind of a situation.

So I do have some additional questions to ask, and I want to address them, first off, to Mr. Perrone. And I would like you to turn, Mr. Perrone, to Tab 87, if you would. And Tab 87, as I understand it, on the front page is a profit and loss statement that you produced, and that was dated May 9, 2001. Do you see that, Mr. Perrone?

Mr. PERRONE. Yes.

Mr. GREENWOOD. Thank you. If you look down at recurring service EBITDA, which I believe stands for earnings before income taxes—interest, taxes, depreciation, and amortization. We are going to refer to that as earnings for short, but we know what it means.

And as you look across those columns for the quarters, it shows a negative number in each one of those columns, is that correct?

Mr. PERRONE. That is correct.

Mr. GREENWOOD. Okay. So the EBITDA, which we will call earnings, was going to—was negative in quarter after quarter. Then, if you look down at the IRUs, which is what we are referring to as swaps or capacity exchanges, we see positive numbers in each one of those columns. And then, below that, we see the recurring adjusted earnings are positive.

So what this seems to me to indicate is that this company was going to be losing—showing that its earnings were negative quarter after quarter after quarter, except for the IRUs. Is that a—it brought it out of the red and into the black. Is that a fair statement?

Mr. PERRONE. I don't think that totally encompasses what this schedule depicts. If I can explain—

Mr. GREENWOOD. Please do.

Mr. PERRONE. Okay. And I think some of this will help to shed some light on the earlier conversation on the billion dollar shortfall, and I will try—I know you have limited time. I will try and go through this as quickly as I can.

But fundamentally, when you refer to EBITDA, that is a term—it is a calculation in accordance with generally accepted accounting principles, and the term “adjusted EBITDA,” which included the IRUs, was a calculation related to the loan covenants and the way the analysts looked at the business that Mr. Cohrs referred to.

In doing our forecast, which this was the—the first forecast we did for the year 2001 started with my April 5 presentation that was referred to earlier, and culminated with this view of our business for the rest of the year, which reflected the forecast as best we knew it at that time.

And there are really three components to the business the way we looked at it. First of all, there was our—what we called our recurring service business. Then, as today, we have a multi-billion dollar worldwide business of recurring service revenue. So one of the things that we attempted to do was to look at the run rate for that recurring service business, and then, of course, the next step in the process was our operating expenses.

The net of those two would give you the EBITDA number that you referred to. And then, of course, we had our IRU business. So there was a lot more to this business than just the IRUs.

Now, if you were to look at the back part of my April 5——

Mr. GREENWOOD. But the rest of it, shy of the IRUs, was negative, correct?

Mr. PERRONE. It was on the April 5 forecast, and this is the important point I want to make. If you look at the back of that presentation, we had put together—when I say “we,” it was myself and my finance team, and I don’t have that presentation in front of me, but I am sure it is in there. There was a set of action items, and those action items primarily focused on margin. In other words, the margin on the sales, the recurring revenue that we had, and operating expenses.

And part of what I was doing with Mr. Casey when I made that presentation to him and several other members of the management team was to say we needed to focus on cost, because the EBITDA was negative and we needed to get it back to break even.

And what this chart that you are looking at does, the middle column reflects primarily cost reduction measures that we put into place in order to begin to attack that issue. And that is what Mr. Casey was referring to in those management meetings when he said expenses are out of control, and we are going to—we are losing a billion dollars.

Now, I do agree with Mr. Cohrs that he was comparing it to budget, and the shortfall from our guidance was significantly less.

Mr. GREENWOOD. Let me cut right to the chase here, what I think this whole issue is about, what I think this hearing is all about. Okay? I have no question that Mr. Winnick was a visionary guy who wanted to—who could see where the telecommunications world was going, that laying cable under the oceans and around the world and around the globe was an exciting business opportunity for the employees of the company, for the investors of the company, and that is all good. And a lot of other people got into that business.

And what seems to me pretty clearly to have happened—I think this is—everybody understands this—there was a glut. There was more fiber optic cable running around the planet than there were customers using. And the go-go projections that this was going to double and quadruple and go on and on just weren’t coming true.

So that is not your fault. It is not your fault that other companies got in this business and decided to make these investments as well. But here is where I think things started to go wrong for the employees and the investors of the company.

When it became clear that because there was this glut, because prices were going down, that you weren’t going to make—that it was going to be very difficult for you to make the numbers, and we have document after document after document that demonstrates how the internal management of this company was deeply concerned and worried about the fact that you weren’t going to make your quarterly revenue expectations, that that was going to drive the price of the stock down.

Okay. Still, nobody has done anything wrong. That happens in business. It can happen to any company. But what strikes us as

problematic, and what we don't—we have to figure out how to legislate about—is that when you got to the point—and I think the evidence is absolutely clear that you got to this point—where the only way to make those numbers was to engage in transactions in which you essentially acquired a surplus capacity from other companies, not because you needed it, not because it was consistent with any business plan, but because that was the only way they would buy surplus capacity from you.

And that is what I call a sham transaction. That is like if they had a bad Christmas season, and Macy's and Woolworth's are showing negative—or looking at negative numbers, and before the quarter ends Woolworth sells its inventory to Macy's, and Macy sells its inventory to Woolworth's to make the numbers look sound, that is a—that creates a false image for the investor.

So the investor, not aware of the complexity of these transactions, continues to invest. And employees continue to stay invested in their 401(k)s, in the company stock. And that is the fraud. That is what was dishonest about these practices. Now—

Mr. COHRS. Mr. Chairman, could I—

Mr. GREENWOOD. Yes. I am going to ask you to comment on this.

Mr. COHRS. Okay.

Mr. GREENWOOD. And we have document after document after document where the sales people were saying, "This sale makes no good. Who on God's earth would be buying more capacity in Scandinavia when we have already invested \$80 million and we have no customers?" So that is, to cut to the chase, what concerns us, and what we don't want to see happen in the future, whether the commodity is fiber optic cable or whether the commodity is anything else.

And, Mr. Cohrs, why don't you respond to that.

Mr. COHRS. Thank you very much, Mr. Chairman, because it is very important, just as it is in the context of talking about these management notes, to keep these—to have some perspective and some context on these things. And there are also some inaccuracies and misperceptions that continually get repeated about these numbers.

In Tab 87, first of all, just to address the inaccuracies, the fact is that this line called IRUs is not all what you refer to as swaps, or we would call concurrent transactions. We had—in the history of Global Crossing, most of our IRU cash revenue came from cash deals, not from either concurrent transactions—or the term you use is swaps, which has a particular meaning that we don't—

Mr. GREENWOOD. Mr. Cohrs, I learned the word "swaps" by reading Global Crossing's internal documents.

Mr. COHRS. I understand it was used in those documents inaccurately and imprecisely.

Mr. GREENWOOD. So it is not just that I referred to them. It is that your company referred to them.

Mr. COHRS. Fair enough, sir. And I acknowledge that. But I would also say—

Mr. GREENWOOD. But didn't—I didn't hear that acknowledgment a moment ago.

Mr. COHRS. I would also—well, I would also say that publicly the senior executives of this company consistently used the term

“swaps” to refer to an accounting treatment for a transaction in which the transaction would have been booked on a historical basis as opposed to fair value, which would have meant no recognition of cash revenue—publicly, and the senior executives attempted to consistently do that. I understand that there were e-mails where the term was used somewhat sloppily.

But if I could go back to the numbers here. You stated that we were generating losses had it not been for the IRUs. The fact is we generated losses, period. Our GAAP numbers generated losses throughout this period. We did not recognize this—these IRU transactions as GAAP revenue. We reported our GAAP numbers, as required, which meant that when we sold an IRU—

Mr. GREENWOOD. How did you report your pro forma numbers?

Mr. COHRS. And we reported—I am about to get to that, if I may.

Mr. GREENWOOD. Sure.

Mr. COHRS. We reported our GAAP numbers as required, amortizing the IRU cash receipts over the life of the contract, which meant if we sold \$20 million of capacity we would recognize \$1 million per year on a 20-year contract, which meant that our GAAP numbers consistently reported losses. IRUs did not transform losses into gains.

We reported pro forma metrics that were supplemental to our GAAP numbers. Those pro forma metrics were originally developed in conjunction with our underwriters and our bankers as we negotiated our bank covenants. In other words, our underwriters and our bankers agreed that adjusted EBITDA was a more accurate measure of the cashflow coming into the company and a better basis on which to calculate loan covenants. This is not something that—

Mr. GREENWOOD. Okay. But what would have happened to your relationships with the banks if your EBITDA numbers were negative without the IRUs? And if it weren't for the IRUs, you would have been in trouble with the banks, is that not correct?

Mr. COHRS. If it had—if you were to hypothesize that we had no IRUs, we would have had significantly less adjusted EBITDA. The banks lent to this company based on projections of our IRU business. And so they were fully aware, from the very beginning, from the beginning of this company, our original business was 100 percent IRUs. The banks lent to this company on the basis of—

Mr. GREENWOOD. Well, let me interrupt—

Mr. COHRS. [continuing] forecasts and generating the IRU revenue in the future.

Mr. GREENWOOD. [continuing] you for a second. And I am looking at Tab 6, which is the management meeting minutes for April 2. Okay? And if you look in the center of the page, I am not sure who was saying this. Was this Casey saying this?

It is not clear who is saying this, but from the minutes it says, “Cannot continue running this business with IRU sales to counter losses on current services. Where is the negative EBITDA coming from? Reminder: No one to talk about performance until we get our numbers published. Be careful. Do not comment on the market either. Formal earnings release will be in middle May. We remain comfortable with our guidance.”

Now, I would like you to explain what that all means, and why we shouldn't conclude that this company was in trouble financially, that it was using the IRUs to mask its losses in earnings, and why this was not—this does not—shouldn't be interpreted as something other than trying to keep that information from the public.

Mr. COHRS. First of all, what this is referring to, as I said earlier, all of the comparisons are with respect to our budget, not to our public guidance, which had significant differences. I think we have to keep that in mind.

At this time period, what Tom Casey and the senior management team were focused on was that we had expense budgets for operating expenses which then developed in the fall, and we were spending at levels consistent with our budget. In other words, spending at levels consistent with revenues that were higher than our public guidance.

As we went through this time period, we were seeing that our revenues were below budget, but still consistent with our public guidance on the whole. And because we were spending at the budgeted levels and generating revenues at the levels of public guidance, it meant that our service EBITDA, the number you referred to in Tab 87, was projected to be more negative than we expected.

At the same time, I believe it was in the July—the April 16 notes, we had David Walsh talking about \$1.76 billion of opportunities in the IRU business. So, in other words, we were still looking at very robust demand for IRUs, and so what this is talking about is service EBITDA, which was always expected to be negative.

In this time period, it was more negative than we had budgeted for, because of what I just described. And, yes, at this time, we were looking at the IRU business as making up the difference.

This culminated in this period in a forecast that was done on May 9, where we actually had time to have the finance organization and the sales organization do some work to construct a forecast that we could support, and that May 9 forecast showed that we were—our forecast was consistent with the lower end of our range for public guidance, and that was the basis on which—on that conference call on May 10, I believe, we affirmed guidance for the year, based on that forecast.

Mr. GREENWOOD. Is it your testimony that all of these capacity swaps, all of these capacity trends, all of these capacity swaps, these deals, were all done for business purposes and were not done simply to meet—there were no transactions that were done to try to book revenue to meet your street—the numbers that the street was expecting?

Mr. COHRS. Yes.

Mr. GREENWOOD. They all had business purposes.

Mr. COHRS. These transactions were all—

Mr. GREENWOOD. They all had business reasons.

Mr. COHRS. [continuing] bought and sold from our carrier customers—

Mr. GREENWOOD. When I see this—

Mr. COHRS. [continuing] for business purposes that were documented, and we projected acceptable rates of return on the assets we were purchasing. There were separate contracts. That is, once we signed the contract to purchase and sent money to the carrier

for the purchase, that was a separate contract. There were no cross defaults.

Mr. GREENWOOD. Did you watch the hearing last week?

Mr. COHRS. Yes, I absolutely watched the hearing.

Mr. GREENWOOD. Okay. Let me ask you this.

Mr. COHRS. And if I may just—there were no separate—there were no cross defaults in those contracts. Once we sent the cash to our customer, to the carrier we were purchasing from, had they defaulted, we were still on the hook for that cash. And these were non-refundable—

Mr. GREENWOOD. But explain why Mr.—

Mr. COHRS. [continuing] separately documented transactions.

Mr. GREENWOOD. All right. Well, explain why Mr. Fitzpatrick, in an e-mail dated September 27, 2001—this is to Joggerts, is that right?

Mr. COHRS. I am sorry.

Mr. GREENWOOD. Or is it the other way around?

Mr. COHRS. This is the dated—an e-mail dated—I am sorry?

Mr. GREENWOOD. It is Tab 52. Ryan Fitzpatrick says, “I received a call this a.m. regarding the Qwest deal, specifically regarding our interest for swap capacity in Helsinki. I wanted to make sure we are all operating from the same place. We do not”—capital N-O-T—“need any capacity into Scandinavia. We currently have invested \$80 million plus into this region and have no customers. To tell ourselves we will take this capacity into inventory will add value to our efforts of yielding return on the investments we have already made is not what we want to do.”

Now, I need you to square that up with your previous statement which is that all of these transactions had a legitimate business purpose and were not just done in order to book revenues.

Mr. COHRS. Yes, sir. This is a transaction that we did not do. In fact, this e-mail is dated on September 27, 2001, 3 days before we closed the third quarter.

Mr. GREENWOOD. But why would it have been contemplated?

Mr. COHRS. As we had previously testified—

Mr. GREENWOOD. Why would—

Mr. COHRS. [continuing] in the first quarter, we refrained from doing transactions that would have allowed us to make our numbers with Wall Street, but we did not do transactions that were available to us precisely because they were bad business deals. So we didn’t do this transaction.

Mr. GREENWOOD. And 3 days before the—if it was so obvious to Mr. Fitzpatrick that it was a crazy deal, why was it contemplated 3 days before the end of the quarter?

Mr. COHRS. Well, there are lots of deals that are contemplated, but if they are bad deals we reject them. And at the end of the third quarter, we rejected many deals. Mr. Winnick testified earlier, which is absolutely correct, on September 30, we had before us transactions that, if approved, would have allowed us to meet our Wall Street numbers. We did not approve those deals, because we concluded that they were bad business deals.

My testimony is that prior to that, or my testimony is that the deals that we approved in the first quarter, second quarter, and third quarter, when we approved them, they had valid business

purpose. We had business cases that were developed by the organization in product management, sales, network engineering, finance, that they all had financial projections that made the acceptable rates of return and that the assets that we were selling were being sold at prices that were consistent with good business reasons. That is my testimony.

Mr. GREENWOOD. And 4 days after the end of that quarter, when in a memo from Joe Becchi to—I am sorry, from Wesley Winkler to Joe Becchi, and he says, “I have been charged with the daunting task of figuring out how to sell the junk we obtained over the past few quarters of reciprocal deals,” again, you think that was—

Mr. COHRS. I am sorry. Did I—

Mr. GREENWOOD. [continuing] those would have been pursuant to business plans?

Mr. COHRS. Could I be referred to that, so I can look at it and know the date?

Mr. GREENWOOD. I am sorry. I will share the document with you. It is not in your binder. It is from last week’s hearing.

The question is: why would sales people be referring to capacity that was obtained in a reciprocal transaction as junk if, in fact, it was acquired pursuant to a sound business plan?

Mr. COHRS. This e-mail from Wes Winkler was written on September 4, 2001.

Mr. GREENWOOD. Right.

Mr. COHRS. Late in the third quarter. By that time, we had started to understand that demand was falling off in the industry. And by this time, we had gone through a process of revising some of our projections, understanding that some of the capacity that we bought, as well as much of the capacity that we had built, was not going to be fully utilized as we had earlier projected.

Now, I don’t necessarily endorse the use of the word “junk,” but it was certainly the case that by this time in the year we were looking at disposal of excess assets that were no longer projected to be needed in the network.

And this is hindsight, looking at this now. But we now know that we were at the beginning of one of the most spectacular collapses in any industry in American history in terms of fall off in demand, something to be—

Mr. GREENWOOD. Well, this will be my last document I am going to ask you to look at, because my time has long since expired. But if you would look at Tab 44, this is from—I am sorry. This is from last week’s binder, but—oh, it is Tab 44 in your current binder, if you would look at that.

This is considerably earlier. This was written in August 2000, August 29, 2000, and it is from Robin Wright to Gary Brauning. And it says—

Mr. COHRS. Who was that?

Mr. GREENWOOD. Pardon me?

Mr. COHRS. I am sorry. Who was that to?

Mr. GREENWOOD. The question is for Mr. Cohrs, but it is written from Robin Wright to I believe it is Gary Brauning. It is in Tab 44. And she writes, “As you know, prices are dropping fast, and to some extent we are our own worst enemy. When saddled with an unreasonable revenue expectation, we do the crazy deals at the end



of the quarter. This, in turn, causes prices to drop, which makes it more likely that we will need to do another deal at the end of the next quarter.” And then she cites a case in point.

Again, people in the company referring to these deals as crazy deals, as ridiculous deals, as unnecessary deals, and clearly saying it is for the purpose of meeting quarterly numbers.

Mr. COHRS. Well, first of all, Mr. Chairman, I will never apologize for attempting to achieve targets. That is the way American business runs. In the particular case of this e-mail, this was written in August 2000. At that time, and from the beginning of the company, from the first business case ever prepared at Global Crossing, we always projected prices to be declining. That was the nature of our business.

Mr. GREENWOOD. Always projected what?

Mr. COHRS. We always projected prices to be declining. The nature of our business was that every business case ever prepared in the history of Global Crossing showed declining prices for capacity because of technological advances. And so the typical business case would have annual price declines of from 15 to 30 percent per year. That was expected in this business.

The fact that prices were dropping was no surprise to anyone. At this time——

Mr. GREENWOOD. But that is not the critical issue here. The critical issue is, why would Robin Wright talk—say, “When saddled with an unreasonable revenue expectation, we do the crazy deals at the end of the quarter”?

Mr. COHRS. It was not uncommon for people in the sales organization to resist some of the targets. We always had challenging targets. We had challenges to build the network, finance it, and challenges to sell. But it was not at all unusual for sales people to characterize their targets as challenging or aggressive.

The fact is, these targets were benchmarked against what our competition was doing. They were benchmarked against the original business cases that were constructed—that were put together when we built these assets. And those business cases were built on independent forecasts from outside consultants that provided demand forecasts, and we benchmarked targets against information like that.

Mr. GREENWOOD. Well, one would expect there to be tension between the sales force and the top office, if, in fact, deals are being done to generate revenues when there is no—there are no customers to use that capacity. That—I don’t know how anything could be more clear than these consistent memos that indicate that the sales force is rejecting these deals because they don’t make business sense, and the corporate guys at the top are saying, “Do it anyway, because we need to meet these numbers.”

And that—the concern that we have with that is that it created the impression that the revenue stream was in good shape when, in fact, it was a shell game.

Mr. COHRS. Mr. Chairman, I don’t see, in this particular memo, an assertion that there was no business purpose. And, in fact——

Mr. GREENWOOD. Crazy deals—if someone in the sales department calls a crazy deal—something a crazy deal that is done for

the purpose of meeting unreasonable revenue expectations, how else would you characterize that?

Mr. COHRS. My understanding is that she was referring to the price at which we were selling this capacity. In her view, perhaps these prices were low. But the fact is that when we were selling capacity, we were always benchmarking our prices against—not only against our list prices, which the sales force tended to start with, we were also benchmarking against the cost of new capacity, which in our case was very low, because we had the network with a lot of capacity to sell, and our incremental cost of selling it was very low.

So it is not always the case that the sales person really understood the economics of this business. At this time, there was work that my staff was performing that indicated that we were selling—on our systems we were selling at prices that were lower than we originally forecast in the business cases, but we were selling capacity at much faster rates.

So, in other words, prices were lower than we had projected. Volumes were much higher. More cash was coming in faster, and the net present value of our investments, in fact, was higher than we had forecast based on higher prices. It is not clear to me that the sales force understood that analysis, and there was no need for them to understand that type of analysis.

Mr. GREENWOOD. My time has long since expired.

The Chair recognizes the gentleman from Florida for 10 minutes.

Mr. DEUTSCH. Thank you, Mr. Chairman.

Mr. Winnick, I assume you were here in my opening comments, and I mentioned last Thursday's Wall Street Journal front page story about another industry at another point in time, the railroad industry in the 1870's. Could you comment on that article and the implications for your industry?

Mr. WINNICK. Well, I think, you know, in—Congressman Deutsch, the short answer to that is that the early mover in the railroad industry, in the latter part of the 19th century, had a big first mover advantage. And a lot of people came along in building spurs, smaller routes, in other parts of the developed parts of the country, and they all started to compete.

I can't relate to what the economic climate was during that period of time, but many of those railroads went bankrupt.

The telecom business is not, in my view—and I am certainly not going to dispute a noted journalist from The Wall Street Journal, who I believe we have one sitting back here today. The telecommunication industry is very different.

One of the things that is lost in the discussions that we are having today and you had last week with other representatives of our company is that 50 percent of the cost of completing a phone call goes out in a bounty to the local phone companies around this country and internationally.

So that a cost of delivering a call across the Atlantic Ocean, Global Crossing changed the paradigm of pricing in our initial Atlantic crossing system by reducing the price to 20 percent of the incumbent price. So that the unit price is 20 cents of the old dollar that was once being charged.

But once you get onto land, and you work your way into the city through some what they call back haul, and you go into a collocation facility, for example, in London, that is where the bounty begins. And the same thing applies here in the U.S.

The biggest cost that we had in our company outside of the network costs—and David could address this, because I know it was a big frustration for David, what they referred to as the local access cost, and I know we had conversations on this over the summer at some point about a year ago. For us, on \$3 billion of revenue going out approximately in the local service, \$1.5 billion is going as a bounty to the local phone companies.

And what is going to happen is that is not going to change, because it was companies like us who try to compete, and the large incumbent tel-cos did everything they possibly could to prevent companies like ourselves being competitive in terms of the local access to the consumer or the commercial customer. Very different dynamic than in the railroad industry.

So, yes, as a—in gross, as an industry, they failed. But we have had these 25-year floods in this country every 10 years. We had the hospital industry implode in the 1980's. Not one hospital company, but every hospital company. Tenant Health Care, Humana, HCA, they all imploded. We had the real estate industry in the early 1990's implode.

What I find, Congressman Deutsch, very unfortunate is that our company, who worked very hard in building something that is very unique, that whoever the buyer is of our company, whether it is Hutchinson One Power, Singapore Technologies, or it turns out to be somebody else, is going to make an incredibly good acquisition, because we built a worldwide platform that cost us over \$12 billion.

Mr. DEUTSCH. I guess the question related to the article, though, was that the overcapacity issue—and, again, hopefully that is—you know, in terms of the access charges, is something that we can deal with, you know, in our position as oversight of the telecom industry.

But I guess the question of the capacity—I mean, at this point in time, even with different changes of capacity, and the overcapacity of the railroad system, obviously was used at a relatively short period of time. I mean, what this chart is showing is that within about a 4-year period of time, the stocks crashed, the railroad stocks crashed. They ended up having, you know, a statistically amazing significant increase in a relatively short period of time.

And I guess, you know, that was really the question in terms of the overcapacity, the \$12 billion that you billed. I mean, I just—from my own perspective, I just envisioned that hopefully that capacity is going to be used, and we are going to need to be using more in a relatively short period of time, because all of the projections that we talked about, in terms of video on demand and other issues, still are not there yet. I mean, there are still other uses for that capacity that we still have not touched in any shape, manner, or form.

Let me jump to a couple——

Mr. WINNICK. I might add——

Mr. DEUTSCH. Okay.

Mr. WINNICK. —Congressman, I totally agree with your analysis as it relates to capacity.

Mr. DEUTSCH. Let me jump back, because it really—in a sense, you know, I mean, the focus, as you have been asked by several members who have been here, really, the transaction on May 23. And I really want to talk about it a little bit more.

And, you know, the—let me refer—and you don't need a copy, because I am going to mention enough of it—a Newsweek article that was in this week's Newsweek. And the spokesperson for this committee is quoted as saying, you know, and I will quote, "Is Winnick a choir boy, or did he steal from the church's collection plate?"

And it refers to, let us see, documents that suggest Winnick was well aware of Global's financial troubles, even as the company was preparing to present a rosy picture to Wall Street. And, specifically, at a February 26, 2001, meeting that we have referred to earlier, according to documents obtained, obviously obtained through—more than likely through us, I assume, "us" being the committee, documents obtained by Time, when it learned that Global was \$200 million short of the first quarter target set by Wall Street.

That is actually the first document—Document 1. I mean, if you can refer to it in the tab. And, again, it is the Office of the Chairman meeting of February 26, a document that was given to Time for them to write the article that they wrote. And it talks—there are—specifically, it brings us \$200 million short of quarter target.

I mean, do you have a specific recollection of that discussion in the meeting?

Mr. WINNICK. Well, I don't have—I think I was asked that question by Chairman Tauzin on the February 26. I don't have a specific recollection of that Office of the Chairman. I certainly would not deny that I was there, if it is stated that I was there. So I don't have any issues with that.

The bigger issue is that the company did make its quarters for the first quarter ending in March. The company did disclose to the Board of Directors sometime in mid-April that it had made its numbers, and we believed, notwithstanding opinions here or e-mails that may suggest something different, it is my understanding that every transaction that was done in this company was done for legitimate business purposes, and there were a lot of safeguards to make sure that would not be violated by any one person.

Mr. DEUTSCH. Let me just go back again, because, clearly, the inference in the article that I am referring to in Newsweek is that this May 26—I am sorry, is it Time? I am sorry. He knows who he gives the information to, so it is Time magazine. I am sorry. Time magazine.

So the article refers to that meeting of February 26, and, clearly, it then goes on to, you know, report that, you know, the company gave its—which we have talked about—the first quarter, the analyst phone call, and then going on to May 23 selling—you know, you were selling the shares, which is really, you know, the focus of really most of the—or a great deal of questioning here today.

And I guess what—I mean, would your position, then, be that, No. 1, it was irrelevant in terms of that, because you actually met the quarter projections? So the discussion, if there was a discus-

sion, in a sense became irrelevant anyway because you made the quarter projection?

Mr. WINNICK. Well, also—yes. The answer is yes, but I also didn't sell the stock until 3 months after this particular date. And there were a lot of things that happened between that date leading up to the time of our sale.

Mr. DEUTSCH. Let me follow up on the May—yes, go ahead.

Mr. COHRS. These notes say that the funnel of existing opportunities brings us \$200 million short. It doesn't say anything about what happened in the remainder of the quarter. This says, "Existing opportunities as of February 26."

Mr. DEUTSCH. Okay.

Mr. COHRS. So it doesn't say—it doesn't—this is not a forecast.

Mr. DEUTSCH. So, I mean, can you elaborate what that actually, then, would mean? Because clearly, again, the inference is, you know, from this article and from some of the questioning that the company was, at that point in time, inside—I mean, clearly, let us talk about what the inference is. The inference is that the insiders knew that the company was basically vaporizing and——

Mr. COHRS. I can understand——

Mr. DEUTSCH. And, you know, you as well as Mr. Winnick and others here today transacted insider trades, you know, cashed out hundreds of millions of dollars, and that is the inference. I mean, that is clearly the inference that people on this dais have made, the inference from this article. And, you know, I mean, I am trying to give you an opportunity to say what your perspective is on that.

Mr. COHRS. I can certainly understand the inference, because that is the inference that is typically made when this information is provided out of context and interpreted out of context. This note says "funnel of existing opportunities." It is dated February 26.

As Mr. Winnick said, by the time we got to the end of the quarter, we made our numbers for the quarter. And so between this date and the end of the quarter, we found new opportunities. This is not a forecast. It is not presented as a forecast.

I think Mr. Perrone earlier spoke to the process of going from a very preliminary forecast to a forecast on May 9. The senior management was ready to endorse. We used that forecast with respect to affirming guidance on May 10, and, you know, the notes taken——

Mr. DEUTSCH. Let me go back, because again I seem——

Mr. COHRS. [continuing] does not constitute a forecast.

Mr. DEUTSCH. I am trying to wrap up. I see, you know, my time has expired on this. But let me just wrap up with a couple of followups on this.

That the May 23 sale—and I really want to focus on that. I mean, have you provided the committee, I mean, with the documentation that you talked about, that this was not a sale you just came up with, that there is a sort of, you know, literally several month transaction that actually just occurred on May 23? That it very well might have occurred on May 15 or June 1 at that—I mean, have you provided that information to the staff?

Mr. WINNICK. I am just about to find out what was supplied to the committee from my lawyer. He is what I have been told. Everything requested by the SEC relating to this particular matter has

been supplied to the committee. I can't certify that, but that is what I am being told.

But if I could make one point about this sale, which I appreciate your spending the time and getting into this. I went to Tom Casey and asked him—and told him I was contemplating selling, and was he okay in terms of the company's numbers, because I would not have sold if I was told anything different. I had to rely on Tom Casey at at least the first juncture.

I then went to my general counsel, who was a partner at Skadden Arps, and told him of my conversation with Tom Casey, and I said to him, "Brian"—his name is Brian McCarthy, and I said to Brian, "Would you please have an independent conversation with Tom Casey," you know, and, again, I am not privy to his conversation, "and would you also check and talk with Jim Gorton," which I am told he did. And that is also additional backup behind that.

So, as I said earlier, every T was crossed, and every I was dotted. And I was very——

Mr. DEUTSCH. And, again, let me——

Mr. WINNICK. And I was very careful in terms of the sale.

Mr. DEUTSCH. Let me—and you know what? I am going to compel myself to really stop at this point with one final question, and it relates to your comments regarding your employees. And I think all of us heard what you were saying, and I think it really came from the heart, and I think each of us felt that it came from the heart.

And I am sure people will follow up and ask you after the hearing about this. But if I can understand, then, what you have said, and that you will follow up, and, in fact, do, is that every employee that worked for Global Crossing, that put money into a 401(k), that has lost money based upon their purchase of stock in Global Crossing, you are going to make them whole, at least on their initial investment, is that what you——

Mr. WINNICK. Yes. Let me—again, I am not going to try to fine tune it for this committee.

Mr. DEUTSCH. Right.

Mr. WINNICK. Because I wasn't intending on making this statement here today. I was going to do that in my own time and place shortly after this.

I am told roughly, slightly less, but that is almost irrelevant—I am told from our H.R. people, Human Resource people at the company, from the time Global Crossing merged with Frontier Corporation, the combined companies, all of the employees through that period have contributed out of their own paychecks or their pocketbook, however money came into the account, \$25 million.

I am going to guarantee that \$25 million. I am going to give \$25 million out of my own personal monies to the plan administrator and have him deal with the distribution of that to the Ms. Crumplers of the world and every other person that lost their money. And I also think that other people should take that leadership role in companies where their people were hurt in their pension plans.

Mr. DEUTSCH. Thank you.

Mr. GREENWOOD. The Chair thanks the gentleman from Florida and recognizes the chairman of the full committee, Mr. Tauzin, for 10 minutes.

Chairman TAUZIN. Thank you.

Mr. Winnick, I wonder who has the billions, however, to put into some trust fund for all of the pensioners and 401(k) holders of stock in America who have lost money because of failures of corporate responsibility in the last several years.

And as the chairman said, I am not sure there is enough money around anywhere except perhaps in the Federal treasury to do that, and that would bankrupt the government here.

We have got—when we left last visiting, you were telling me how you—Tom Casey had not informed you of some of these warnings, and not informed you of what might be wrong with the company. But you did receive an interesting memo back in June 2000. That is like almost a year before the events we just described, right?

Mr. WINNICK. What memo was that?

Chairman TAUZIN. It is Tab 20. It is from the then CEO, Leo Hindery, of Global Crossing. Would you turn to that memo? First, why don't you tell us who Leo Hindery was. How long was he your CEO?

Mr. WINNICK. Leo Hindery was the CEO of one of the divisions of Global Crossing called Global Center from January 2000 to September 2000, I believe. He also became the CEO of Global Crossing in March 2000 timeframe.

Chairman TAUZIN. Okay.

Mr. WINNICK. Approximately.

Chairman TAUZIN. And then he left in October, I think?

Mr. WINNICK. Yes, thereabouts.

Chairman TAUZIN. You have the memo in front of you now, right?

Mr. WINNICK. Yes, I do.

Chairman TAUZIN. This is a memo dated June 5, 2000, to Gary Winnick, Tom Casey, and Lod Cook. And it is self-explanatory. It has been written about in the press, but it basically describes the fact that of the four notable participants in the telecom industry niche in which Global Crossing found itself that interestingly—in fact, he describes it rather striking—that all are now willing to have its ownership change, read acquired.

He goes on to say that “The stock market can be fooled but not forever. And it is fundamentally insightful and always unforgiving of being misled.” And in the very next sentence, “The stock market is every day realizing more the perilousness of the access transport strategy over the long term despite very profitable outcomes in the near.”

On page 2, he describes a plan of action to you. And the third part of his plan of action is to talk publicly every day about how better run Global Crossing is, and then meet or exceed near-term financial expectations. And, No. 4, without looking like we are shaking our booty all over the world to sell ourselves quickly to whichever of the six possible acquires offer our shareholders the highest value.

This is a memo basically advising you that this company doesn't have a long future, and that you ought to be thinking of—while you

are telling the public everything is okay, doing everything you can to sell. Is that right?

Mr. WINNICK. No, that is not what it says.

Chairman TAUZIN. Well, tell me what it says.

Mr. WINNICK. Well, first of all, this is a cover-your-booty memo, okay, as opposed to—

Chairman TAUZIN. This is a what?

Mr. WINNICK. This is a cover-your-booty memo.

Chairman TAUZIN. Could you explain that to us?

Mr. WINNICK. Okay.

Tom Casey had come to me sometime before this June 5 date to tell me that Leo Hindery had gone to a major investment banking firm—I will leave them unnamed for now—to talk to them about selling the company.

Chairman TAUZIN. Okay.

Mr. WINNICK. And that was unauthorized. Obviously, one should have that discussion with its co-chairman, vice chairman, and, I would assume, the board of directors. So when he was confronted by that, he wrote this memo.

Chairman TAUZIN. And what did you do when you got this memo from him?

Mr. WINNICK. Well, I think Leo has—he is obviously very gifted in terms of his writing capability. But what this memo basically said to me is the following. “I am a deal guy. Let me sell your company. I am selling—trying to sell Global Center,” which we did. We had sold it to Exodus for about \$6 billion in stock during that summer timeframe. “And let me sell it. Let me sell it for \$45 to \$50 a share,” I think he indicated in his memo here.

There are, in his view, a number of people out there who would be interested. The world is getting competitive. And, frankly, I think Leo is a very competent, very clever fellow, but I don’t think he had any passion to want to run this company. And I think this memo was nothing more—an attempt to say what he felt. However—

Chairman TAUZIN. Did you take it seriously?

Mr. WINNICK. Oh, yes, we had a discussion on this.

Chairman TAUZIN. What did you tell him?

Mr. WINNICK. I said, “Leo”—first of all, we had already known he went to a major investment banking firm on this. And we confronted him with that, and he kind of said, “Well, I am having some discussions.” And I said, “Look, if you can get an indication for this company of \$45 to \$50 a share”—I assumed the stock was trading at a significant discount from that at the time—“we will take it to the board. But we are not formally putting the company up for sale.”

Chairman TAUZIN. Okay. He sent you another memo—I have just handed out a copy of it—dated June 14, 2000. If you will look at it real quickly. And he goes on to say, “I thought at length about how to best describe my plan for the next phase of the company, and would propose a brief summary of the following for your approval.”

He says, “Keep it quiet, confidential. The best way to upset this plan is to talk about it on the outside. Spill the beans and we spill every possible opportunity. Run the company as best you can. Have



these other guys give you a hand.” And then there are seven potential buyers. In effect, “Abandon all other strategic issues over the next several months.”

He is obviously following up on his initial suggestion to you. Did you receive this memo?

Mr. WINNICK. Chairman Tauzin?

Chairman TAUZIN. Yes.

Mr. WINNICK. Going back to the June 5 memo for a second—

Chairman TAUZIN. Yes.

Mr. WINNICK. [continuing] I clearly take issue with that the stock market can be fooled, but not forever, and always unforgiving of being misled. He was the CEO of the company. We also had a shareholder meeting, I believe, that month. So this memo would be very disingenuous for a CEO to address a shareholder meeting and not tell them that the company is misleading the investors, which I don’t believe is true at all.

Chairman TAUZIN. So you don’t deny you said it. You just take issue with—

Mr. WINNICK. No. It is in the—

Chairman TAUZIN. It is in a memo to you.

Mr. WINNICK. But his memo really just deals with the redundancy and the competitive environment that was developing in the industry with Level 3 global aspirations and 360 networks.

Chairman TAUZIN. I understand that. I understand that.

Mr. WINNICK. I think that is what his memo relates to.

Chairman TAUZIN. I understand that. But the point is that, as early as June 2000, at least one of your CEOs is advising you that the company may be in some real trouble up ahead, and you had better be thinking about selling.

Mr. WINNICK. No, I—

Chairman TAUZIN. You just didn’t buy it.

Mr. COHRS. He was also opining that the value was \$45 to \$50 per share.

Chairman TAUZIN. I am sorry. Mr. Cohrs?

Mr. COHRS. Mr. Hindery was also opining that the value of the company was \$45 to \$50 per share.

Chairman TAUZIN. Yes.

Mr. COHRS. Which is not at all consistent with some view that the company was about to disappear.

Chairman TAUZIN. Okay. A year later, April 2001 now, we have the minutes of the manager’s meeting, which you, Mr. Winnick, say again you didn’t hear about, Casey didn’t apprise you of.

Mr. WINNICK. Well, I am saying I don’t have—

Chairman TAUZIN. A memory of it.

Mr. WINNICK. That is correct.

Chairman TAUZIN. Did you watch last week’s hearing, by the way?

Mr. WINNICK. Well, interesting enough, I tried to watch what I could on Real Networks, but they have a bad carrier provider, so it was out a lot.

Chairman TAUZIN. That is life for you. Well, did you hear Mr. Joggerst when I asked him if someone told Tom Casey something, was that equivalent of making sure Gary Winnick knew it, and he

said absolutely? That telling Tom Casey something was the equivalent of telling Gary Winnick that? Did you hear that part?

Mr. WINNICK. Well, after very aggressive questioning, I heard it. Okay?

Chairman TAUZIN. So you think I forced him to say that?

Mr. WINNICK. And he said—please let me finish, sir.

Chairman TAUZIN. Okay.

Mr. WINNICK. And he said, “I assume it.” Now, he didn’t know it, but he was very aggressively questioned by your committee to try to make that connection.

Chairman TAUZIN. Well, I was just asking about your relationship. I asked him if you and Tom Casey were very close. He said yes, and you spoke every day. And I simply said, “Would telling Tom Casey something be the equivalent of telling Gary Winnick?” He said absolutely, according to the relationship, that is what he assumed.

Mr. WINNICK. Well—

Chairman TAUZIN. That is a bad assumption?

Mr. WINNICK. That is a very bad assumption.

Chairman TAUZIN. Okay.

Mr. WINNICK. And—

Chairman TAUZIN. So you said, again, that the management meeting on April 16 in which Tom indicated “we do not have room for more reciprocal deals” is something you have no recollection of, and Tom Casey never made that clear to you?

Mr. WINNICK. I just don’t have any recollection one way or the other on that.

Chairman TAUZIN. How much did you engage—what role did you play in these IRUs, these reciprocal transactions that Tom Casey complained about on April 16, the company had no more room for?

Mr. WINNICK. Oh, I don’t—I mean, I don’t know what the question is.

Chairman TAUZIN. Let me try to restate it.

Mr. WINNICK. Okay.

Chairman TAUZIN. What was your role in these reciprocal transactions? Were you aware of them? Did you participate in them? Did you help make them happen? Were you part of a team that tried to get these reciprocal deals constructed? Or was this Tom Casey’s problem, or somebody else’s problem, and they never told you about it?

Mr. WINNICK. Well, the—

Chairman TAUZIN. Let me—

Mr. WINNICK. Okay.

Chairman TAUZIN. Let me get something clear, Mr. Chairman. Under our rules, attorneys may be here to advise their client upon request, but lawyers cannot coach their witnesses, the clients, on the—

Mr. WINNICK. I don’t need to be coached.

Chairman TAUZIN. Well, I would hope not. I would just remind—

Mr. WINNICK. But I don’t need to be coached on this.

Chairman TAUZIN. I thank you, sir. Let me ask you again: how involved were you in these IRUs, in pursuing them or negotiating them?

Mr. WINNICK. Well, let me take that in some pieces for you—  
Chairman TAUZIN. Okay.

Mr. WINNICK. [continuing] if I may. I would certainly be involved in those IRU or reciprocal transactions that require a certain dollar threshold of approval. And as I talked about, I was very much involved in the 360 approval process. There was another transaction that was done at the same time, and then there was a Qwest transaction that Tom had come to me and asked for my approval on, even though I found out afterwards, in preparation for this, that it didn't even require my threshold approval. But I did ask for the business case on it, which had been presented to me.

I would, on occasion, talk to the sales team, toward the latter part of the close of the quarter. Whether I initiated the call, or it was David Walsh and—was hosting a call and might come on, and just get a kind of top-level view of sub-C, principally sub-C IRU transactions in the hopper without any specificity to what they were or the genetic makeup of the reciprocal transaction. That part of it was not at that level of discussion with me.

I also tried on a number of occasions, one in particular, to try to enlist the support of our board of directors, which was made up of some very prominent people, who had I think a very unique reach in terms of corporate leaders, not just U.S. but other places, to help us from a top level down get in the door, so we could then sell network services, not IRUs and wholesale, but network services.

So I was involved at times. I wasn't involved on a regular basis, but I put my nose into it every now and then.

Chairman TAUZIN. Were you involved with the Qwest deal in June 2001?

Mr. WINNICK. I wasn't involved in the creation of the deal. I signed the deal, because it had been presented to me by Tom Casey saying it was a deal he wanted to do, it met all of the business conditions, he had all of the necessary sign-offs, and even with that I asked Tom to get me the business case. I wanted to see it.

Chairman TAUZIN. How about Flag?

Mr. WINNICK. Not that I recall.

Chairman TAUZIN. How about China NetCom?

Mr. WINNICK. No.

Chairman TAUZIN. Velocita?

Mr. WINNICK. No.

Chairman TAUZIN. I have a memo at Tab 32. Would you refer to it, Mr. Winnick? By the way, how about SingTel? Were you involved in that one? This is one that didn't go through, but I understand there was heavy negotiations on it.

Mr. WINNICK. Well, no, I wasn't involved in any business deal with SingTel, although I did go to Singapore when our cable—actually, when Asia Global Crossing signed their joint venture with Singapore Technologies. But I wasn't involved in the creation of—

Chairman TAUZIN. Tab 32—

Mr. WINNICK. [continuing] the deal.

Chairman TAUZIN. Tab 32 is a confidential memo from Jim Gorton to Gary Winnick.

Mr. WINNICK. Yes.

Chairman TAUZIN. Dated June 19. And it reads as follows, "Gary, we have asked Patrick Joggerst to get us a list of targeted customers for our board members to help us at your suggestion." So that is what you are talking about where you organized the board to go out and open the doors for some of these deals. "Patrick rightly believes the only deals that we should focus on at this critical moment are the IRU deals on the table." Is that right?

Mr. WINNICK. This is very much out of sequence. If I may take a moment here, Chairman TAUZIN—

Chairman TAUZIN. Sure.

Mr. WINNICK. [continuing] just to kind of tell you what happened here.

Chairman TAUZIN. No problem.

Mr. WINNICK. Because I think it is important—

Chairman TAUZIN. You understand my chairman gets on me when I use up too much time.

Mr. WINNICK. Please give an extra minute or 2. Let me—

Mr. GREENWOOD. Barely, Mr. Chairman.

Chairman TAUZIN. Okay. Because I want to ask you a few other questions about other memos.

Mr. WINNICK. Okay. In the May board meeting, I believe it was, May or June board meeting of 2001, I had asked Tom Casey and John Legere, who were—John was the CEO of Asia Global Crossing at the time, and John—and Tom Casey the CEO of Global Crossing.

If they could bring their network service people to the board, where they could both have their people make presentations to our directors, and showing them the unique capability that this network that was close to completion would create in terms of opportunities for our company as this—as we were evolving from a wholesale to a more service model.

At the end of the presentation, I think most of the directors, if not all, were pretty overwhelmed with what had been created, myself included, because I never really got to see this presentation. So it was pretty unique.

That stimulated a conversation with directors, if they would find a way and be willing to help us get a foot in the door with the major multinational type corporations and enterprise customers—you know, the major auto companies, the advertising companies, the food companies, the lodging companies, and that type of thing, because many of our directors had that type of reach. And they were all very willing to do so.

And I asked Lod Cook, my co-chairman, if he would put a book together, a list of prospects, circulate it to directors, and have the directors come back and tell us who and where they might have a relationship, and then we would organize the next level of that pursuit of business.

This memo is probably a result of that discussion, but it was not the intention of me or Lod Cook to have our directors go out and sell wholesale services and IRUs. Their intention wasn't to sell the specific product. They weren't selling shoes. They were going to just try to get us the customer in the store. Okay?

So this thing is out of context, but—

Chairman TAUZIN. Let me put one in context. Tab 31. This is a confidential memo from David Walsh to Tom Casey, and with copies to yourself and others. There is a message from Nancy Davidson, on behalf of Gary Winnick, to Tom Casey. Subject: Tom, I spoke with Jeff Skilling, and there are three people vying for the business. We are one of them. They are looking to do something here by quarter end. I indicated 300 for assets, 900 for reciprocal business," right? That is one of these trades, right? Indicated that people may want to do it. You were involved with that one, were you not?

Mr. WINNICK. Involved exactly as this states.

Chairman TAUZIN. You didn't do that deal, did you?

Mr. WINNICK. No, that deal was rejected.

Chairman TAUZIN. But I have another memo at Tab 54 from Tom Casey to you.

Mr. WINNICK. By the way, Chairman Tausin—

Chairman TAUZIN. Go ahead. I am sorry.

Mr. WINNICK. [continuing] on this memo 31, which I happened to read today in the newspapers, the—

Chairman TAUZIN. Mr. Winnick—

Mr. WINNICK. [continuing] I was asked by David Walsh—

Chairman TAUZIN. Mr. Winnick, I want to make a point for the record. We invited you to come and discuss all of these memos with us, with our investigators, time and time again. I believe you offered to do this only with the condition that you wouldn't have to come testify, but you understand we would have loved to discuss all these memos with you in private at an—

Mr. WINNICK. No, I am not disputing it.

Chairman TAUZIN. [continuing] but we didn't have that opportunity.

Mr. WINNICK. I am not disputing it. But—

Chairman TAUZIN. Right.

Mr. WINNICK. [continuing] you know, for my wife to get up this morning and to look at the newspapers—

Chairman TAUZIN. Right.

Mr. WINNICK. [continuing] and to see things here, it was just a little unsettling, sir, before I came in, but—

Chairman TAUZIN. Well, it is a little unsettling for us when we—when people won't come in and just visit with us and talk about these things either. But thank you, sir.

Mr. WINNICK. I was asked by David Walsh—and I am sure it came about through some discussion I had with David or in some meeting somewhere—that David was working on a very sizable transaction with Enron, and he asked me if I knew anyone there, and I told him I had just met Jeff Skilling at some industry conference for, you know, just walking by and saying hello. And I said I would call him, and that is all I did here.

And I think I may have actually called him again, which he may not have returned the call, but this Enron transaction that the company had ultimately rejected in the third quarter of 2001, David Walsh could be better—

Chairman TAUZIN. Yes. It was rejected. Tab 54, if you will go to it.

Mr. WINNICK. Okay.

Chairman TAUZIN. This is a memo from Tom Casey to you. It looks like his handwriting, apparently. It is a handwritten message addressed to GW, and it reads as follows, "Ken Lay left a voice mail saying he had left—he had sent an executive summary of the fund. He is willing to think creatively." It says, in effect, "He is in New York today and could meet if you have the time and interest in talking." Did you receive this memo?

Mr. WINNICK. I don't remember seeing this memo, but I do remember having a visit with Ken Lay in the summer of that time, with Lod Cook and Tom Casey, when Ken Lay was—then became the CEO of the company I guess around that time.

Chairman TAUZIN. But it was in reference to this proposed deal?

Mr. WINNICK. I am sorry?

Chairman TAUZIN. Was it in reference to this proposed deal that you had discussed with Jeff Skilling?

Mr. WINNICK. I think so, but, again, I don't—I don't have a date.

Chairman TAUZIN. Yes, I don't have a date on it either. That is why it was confusing to us.

Mr. COHRS. Mr. Chairman, if I may, there is no date here. This refers to Bob Anunziata.

Mr. GREENWOOD. Move the microphone over, Mr. Cohrs.

Mr. COHRS. This memo, at the bottom, there is no date on this memo. It refers at the bottom to "Bob," which is a clear reference to Bob Anunziata, who was the CEO, and his term as CEO ended in, as I recall, spring of 2000 or something—the point is, this memo is from a much earlier time period. It had nothing to do with—

Chairman TAUZIN. Now many CEOs did you have at the company? Because we have had—

Mr. WINNICK. Which year?

Chairman TAUZIN. I know. How many do you go through, Mr. Winnick?

Mr. WINNICK. Go through?

Chairman TAUZIN. Well, how many have you had? How many—

Mr. WINNICK. Was that a leading question?

Chairman TAUZIN. No, I apologize. How many CEOs did you have during this period?

Mr. WINNICK. Let us see. Four or five approximately. Chairman Tauzin?

Chairman TAUZIN. Yes, I want to move to another tab.

Mr. WINNICK. But just going back to this—

Chairman TAUZIN. Go ahead.

Mr. WINNICK. [continuing] this Ken Lay memo—

Chairman TAUZIN. Yes.

Mr. WINNICK. [continuing] I may be out of time on this, and I don't remember this memo, but I did have a meeting with Ken Lay and Lod Cook and Tom Casey around the time after Skilling left the company—

Chairman TAUZIN. Ah.

Mr. WINNICK. [continuing] relating to a transaction that David was—

Chairman TAUZIN. So your testimony is you did meet with Ken Lay reference to this deal you talked about with—

Mr. WINNICK. No, not to this deal, just to—

Chairman TAUZIN. Just to meet with him.

Mr. WINNICK. Ken Lay was in New York. Lod knew him. Lod invited him up to the office, and we met for the first time. And there wasn't any specific transaction done, just a, you know, meet and greet.

Chairman TAUZIN. Let us go to Tab 42.

Mr. WINNICK. Which tab?

Chairman TAUZIN. It is the August 13—42—August 13, 2001, set of e-mails, I suppose. And this is from David Walsh, again, to Fitzpatrick, Brian; Joggerst, Patrick; copies to yourself and others, to Casey, to Lod, to Winnick, to Gary, etcetera. And it is entitled "Big Deal Battle Plan." Patrick and Brian, "We need to put a battle plan together on the accounts listed below. Winnick wants to make sure we are putting the right amount of energy in the right places. We need an overall plan for each of the following A accounts," and then it lists a whole bunch of them, including WorldCom, which has—assisted by Gary Winnick and John Legere.

Mr. WINNICK. Right.

Chairman TAUZIN. Explain this e-mail to us.

Mr. WINNICK. Sure.

Chairman TAUZIN. Again, are you—what kind of battle plan were you putting into effect, and what were these accounts?

Mr. WINNICK. Well, these were large telephone companies, both what we refer to as RBOCs in the U.S. and PTTs outside the U.S.—France Telecom, Cable and Wireless, and so forth, Deutsche Telecom.

The battle plan was really, now that the network was virtually complete and it was a very unique set of assets, and the capital markets are basically drying up around this timeframe in terms of access to capital, both for small companies and big companies, these companies still had large transmission needs.

The forecast, notwithstanding what may have been happening in the financial markets, really hadn't changed. And we wanted to be the outsourcing partner for Deutsche Telecom. In fact, our company had been working on a transaction with them for probably a year or more, where we were hopeful that we might get an outsource contract to be their backbone network provider.

I had conversations with Dave Dormand at AT&T, who had been installed as the President, with Tom Casey. We met with him for dinner one night in New Jersey to try to find a way how we could be the overlay to their network. No one had the reach that Global Crossing's network had. And if you have it, you need to use it. And it was a unique set.

WorldCom is here because John Legere, who ran Asia Global Crossing, didn't know the WorldCom folks. And I had met their CFO, Scott Sullivan, and their Director of Operations, Ron Beaumont, once or twice before. So John just asked me if I would help reach out to them. But it was—again, it was an introduction.

These were the type of customers that we wanted our network to overlay. Instead of them going out and building fiber and cable stations and undersea cables, they didn't have to do that. They could come to us. It was one-stop shopping.

Chairman TAUZIN. Let me read the list—France Telecom, C&W—Cable and Wireless—Telephonia, TeleGlobe, Bell South, Verizon, WorldCom, and Deutsche.

Mr. WINNICK. Right.

Chairman TAUZIN. Were these potential swaps?

Mr. WINNICK. I don't know specifically whether there was any reciprocal nature to the transactions. I just don't—I don't know.

Chairman TAUZIN. You don't know? Is that your testimony?

Mr. WINNICK. I don't remember. It is possible that might have been some of it.

Chairman TAUZIN. Was SingTel a potential swap?

Mr. WINNICK. SingTel?

Chairman TAUZIN. Yes.

Mr. WINNICK. As opposed to SingTech?

Chairman TAUZIN. We have SingTel Cable. Tab 25, if you will go to that.

Mr. WINNICK. Oh, okay.

Chairman TAUZIN. It is a memo from John Legere to Gary Winnick, and it is—it includes—

Mr. WINNICK. Yes, SingTel.

Chairman TAUZIN. [continuing] exchanges in which you are basically saying, "I will be meeting with B.G. Lee tomorrow morning. Send additional information and comments for Nancy to fax to me." Was that a swap—a potential swap deal? I know it didn't go through, to my understanding.

Mr. WINNICK. No, I don't—I don't think there was any deal there. It was just I was in Singapore—

Chairman TAUZIN. Okay.

Mr. WINNICK. [continuing] around this timeframe. I was there with the former Ambassador to Singapore, who knew B.G. Lee, who was making the introduction for me.

Chairman TAUZIN. Okay.

Mr. WINNICK. And it was just, you know, a meet-and-greet and kind of, "Is there a way our companies could do business with each other?"

Chairman TAUZIN. Tab 30. This is a message, again, confidential from Brian Fitzpatrick to David Walsh, but it is entitled "All Hands On Deck." And it reads to Patrick and Brian, "Tom will be traveling to Beverly Hills tomorrow to update Gary and Lod on the outlook of the quarter. Right now—right after today's call, could you prepare the update. I would like the report to be organized as follows: completed, contractually obligated, single deals, primary targets." And then strategic big deals are listed WorldCom, Velocita, Emergia, China NetCom, TeleGlobe, Flag, and Qwest. Was that a list of potential swap deals as well?

Mr. WINNICK. This memo is not addressed to me. David Walsh is here. Probably perhaps he can put some better light on it.

Chairman TAUZIN. But do you know whether or not those deals were potential swap deals? Just to your knowledge.

Mr. WINNICK. I can't say at this point.

Chairman TAUZIN. It also says, "We could use some help from Gary and Tom on the Pay Tech deal." Did you assist in that negotiation?



Mr. WINNICK. Pay Tech is a small, very well run phone company in Rochester. I have an investment in the company. My understanding is that company had been doing business with Frontier for some time in terms of the U.S. network. And I was asked by somebody if I would reach out to the CEO, in terms of him having an interest in buying capacity. I don't believe there was any swap or reciprocal nature to anything there.

Chairman TAUZIN. Okay. Tab—

Mr. WINNICK. And it didn't happen.

Chairman TAUZIN. I am sorry. Tab 32, this is dated June 28, 2001. This is a confidential memo from Virginia Covine.

Mr. WINNICK. I am sorry. Which one? 32?

Chairman TAUZIN. Tab 32.

Mr. WINNICK. 32?

Chairman TAUZIN. Yes.

Mr. WINNICK. Okay.

Chairman TAUZIN. And the subject is a Qwest conference call in which you were involved, apparently, along with Mr. Cohrs, Mr. Gorton, Mr. Casey, Mr. Walsh, and it deals with the—apparently, a potential deal with Qwest, is that right?

Mr. WINNICK. Chairman Tausin, I don't think we are on the same page.

Chairman TAUZIN. I am sorry? I have Tab 32. Is that correct? What is it? It is 37.

Mr. WINNICK. Okay.

Chairman TAUZIN. Seven looks like two here. I apologize. It is a confidential memo from Virginia Covine regarding a Qwest conference call in which you purportedly were involved with Messrs. Casey, Walsh, Gorton, and Cohrs. Is that correct? Do you recall that call?

Mr. WINNICK. Honestly, I don't.

Chairman TAUZIN. Were you involved in the negotiations on Qwest personally?

Mr. WINNICK. No.

Chairman TAUZIN. You were not?

Mr. WINNICK. I don't believe so. I mean, you know, the definition of "negotiation," as I indicated to you before, Tom Casey did come to me with a Qwest deal and asked me to sign it.

Chairman TAUZIN. And you would sign off at the end on all of these when they were finally negotiated, right?

Mr. WINNICK. No. Actually, quite the contrary.

Chairman TAUZIN. What happened?

Mr. WINNICK. There were some deals that I wouldn't and didn't support doing.

Chairman TAUZIN. Well, I understand. But I am saying they had to get your signature, your approval at the end?

Mr. WINNICK. Only if it reached a dollar threshold.

Chairman TAUZIN. A dollar threshold.

Mr. WINNICK. Yes.

Chairman TAUZIN. But here is my question at the end of all of this. All of these documents seem to indicate at least that you were giving instructions or commands, "all hands on deck," or, "here is the battle strategy to get these deals done," that you actually get

named on some of these memos as being responsible for one or the other of the contacts. All of this between June and August.

All of this is occurring in the third quarter following the series of dire warnings that we saw—that I quoted to you earlier when we talked, that you say you never heard from Tom Casey or from anyone else in the company, not the least of which was an April 16 manager's meeting which said, "We can't do any more of these deals. We just can't do any more."

And yet there is a host of information that literally puts you and the other managers of this company on a track where you are desperately—aggressively at least, not desperately—aggressively trying to get these deals, many of which are swaps, when according to the manager's meeting at least Tom Casey told everybody, "We can't do any more of these deals." And I am looking for an explanation.

Mr. WINNICK. Okay. I would be happy to, and I think it is a good point. But I think it is a very big stretch.

Chairman TAUZIN. Try it.

Mr. WINNICK. In June 2001, Jim Gorton had determined that there was some information that was being generated by our financial staff that would force the window to be closed prematurely.

Chairman TAUZIN. Window on what?

Mr. WINNICK. Window on stock sales by executives.

Chairman TAUZIN. All right.

Mr. WINNICK. I was very upset about that, because I had known I had sold stock a few weeks before.

Chairman TAUZIN. And explain that just a bit for us. What did that mean?

Mr. WINNICK. What it means is that no other executives—no executives of the company would be able to sell any stock, because it had been determined that even though it was preliminary in nature that there was going to be a variance from what Tom Casey and Dan Cohrs felt was their appropriate guidance.

Chairman TAUZIN. So you—

Mr. WINNICK. Please let me finish my point.

Chairman TAUZIN. But explain—

Mr. WINNICK. This is very—it is very important to get this.

Chairman TAUZIN. [continuing] who was threatening to close the window early?

Mr. WINNICK. It was threatened. It was—

Chairman TAUZIN. What was it, exactly?

Mr. WINNICK. Jim Gorton just came up to a meeting and said, "I am closing the window."

Chairman TAUZIN. Wow. Okay. And you had just sold some stock.

Mr. WINNICK. Well, I sold stock a few weeks before.

Chairman TAUZIN. Right. Maybe Jim Gorton can help us with that.

Mr. WINNICK. Can I just finish my point, because—

Chairman TAUZIN. Go ahead, please.

Mr. WINNICK. You see in this June period a little bit more—the third quarter, a little bit more activity?

Chairman TAUZIN. Yes.

Mr. WINNICK. Because if you look back in prior periods you will not see——

Chairman TAUZIN. Quite as much.

Mr. WINNICK. Well, you will see very little activity——

Chairman TAUZIN. Okay.

Mr. WINNICK. [continuing] on my part in sales.

Chairman TAUZIN. Okay.

Mr. WINNICK. I wanted to know what was going on. And I requested from Tom Casey that I wanted to go back, and I wanted to meet with David Walsh, I wanted to meet with another senior executive in sales, and I wanted to meet the person who was handling these local access—and I felt that my presence was needed because the company was concerned it would not be able to meet its numbers during this June period—I mean, in—not the June period but the—I guess it was in June it came out.

And that is why you see me having a little bit more activity and a little bit more involvement and trying to be a little bit more creative about, how do we take this precious asset that has been created, where billions of dollars have been spent, and why are we just doing, you know, IRUs or reciprocals? Let us become the heart and soul of these international networks like Intel is to the computer, or as WorldCom is to the internet, and still is to the internet.

How could we be this backbone transmission provider in a global marketplace? And that is what more of my involvement was like.

Chairman TAUZIN. All right. I am going to have to move, but I want to understand this. Mr. Gorton brings you this message that they are going to close the window a little early. Is that the first you hear from anybody that the company may not make its numbers? Where did you hear that from?

Mr. WINNICK. I heard it from Jim Gorton.

Chairman TAUZIN. He is the only one who told you that? Tom Casey never told you that?

Mr. WINNICK. I have said it a half a dozen times today, Chairman TAUZIN, that the—I specifically went to Tom, and I had my agents go to Tom and to Jim Gorton prior to the sale to make sure everything was done according to procedure.

Chairman TAUZIN. Mr. Chairman, I realize time is short, and I apologize. But I think it is critical we hear from Mr. Gorton on this.

What exactly happened here? What changed between right before the sale on May 23 and in—right immediately in June? Now you are telling him we are going to close this window because we have got problems. What happened?

Mr. GORTON. In New York, at a management meeting—and I believe it was June 4, it was a Monday or a Tuesday, June 4, June 5—Tom Casey sometime in the early part of that management meeting said that the company was going to have to take a restructuring charge or head count reduction or real estate consolidation, and he said, “There is a problem with recurring revenue that may make us—cause us to have to reduce our guidance to the street down for the rest of the year.”

Chairman TAUZIN. Is that the first time you heard that?

Mr. GORTON. That is the first time I heard that we were going to have to revise our guidance down to the street, yes, sir.

Chairman TAUZIN. And you reported directly to Mr. Winnick this problem?

Mr. GORTON. I don't recall that, actually. Instead, what I did is I—it was either the next day or the next day I put in a call to—because I was in New York, and my office was out in Los Angeles. I put in a call to my assistant general counsel, Liz Greenwood, who was the person who generally kept charge of the window period, and I informed her that I felt we should close the window. And so I don't recall—

Chairman TAUZIN. You don't recall telling that directly to Mr. Winnick?

Mr. GORTON. I don't recall telling Mr. Winnick that directly. I did have a conversation with Mr. Winnick about that at the board meeting which took place the following Wednesday, which was June 13.

Chairman TAUZIN. Mr. Winnick—

Mr. WINNICK. Yes, sir.

Chairman TAUZIN. [continuing] do you want to clarify this? When did you first hear from Mr. Gorton that this problem existed?

Mr. GREENWOOD. This will have to be the last response.

Chairman TAUZIN. This will be the last one. I promise.

Mr. WINNICK. You know, my—the best of my recollection is I do recall Jim coming over to my offices, which were not in the Global Crossing building, informing—it may not have been Jim. It may have been somebody else, but I seem to remember it being Jim—telling Tom Casey and myself, and I believe Liz Greenwood was with Jim, but I could be wrong on this—telling us that they had to close the window, that they had some variance.

I remember being very upset, rightfully so. I also remember Tom being visibly shaken, and, in fact, turning white. And that is the first I heard this.

Chairman TAUZIN. Thank you, Mr. Chairman.

Mr. GREENWOOD. The gentlelady from Colorado.

Ms. DEGETTE. Thank you, Mr. Chairman.

Mr. COHRS, I think you may have heard me talking earlier to Mr. Winnick about the—several things, but one of them was the number of players in the global telecommunications market around the time of all the transactions. And as I understand it, there were really only four or five companies that were trying to do these global kinds of networks. Would that be accurate? Would you know about that?

Mr. COHRS. Yes, I would. I think in terms of actually building global networks, there were perhaps three—Global Crossing, TyCom, and 360. And the other network builders tended to be more regionally focused.

Ms. DEGETTE. And that would have included Qwest, right?

Mr. COHRS. Yes, they were focused mainly in the United States and, well, in Europe—

Ms. DEGETTE. But they were also trying to get some agreements to take them internationally as well, right?

Mr. COHRS. That is correct. Qwest, in fact, purchased significant amounts of capacity from Global Crossing.

Ms. DEGETTE. Right. Exactly.

Mr. COHRS. My understanding was specifically so that they could extend their network internationally.

Ms. DEGETTE. Right. Exactly. And I know that Global Crossing was also interested in doing business with Qwest, and I am wondering if you can tell me what Global Crossing's business reasons for doing business with a company like Qwest might be.

Mr. COHRS. Well, Qwest—actually, the original business with Qwest was when Frontier purchased an IRU for 12 fiber-pair on the Qwest network in the United States. The Frontier network that we acquired actually was a network that originally was developed by Qwest.

Ms. DEGETTE. Okay. But you did additional deals after that with Qwest.

Mr. COHRS. That is correct. And as—

Ms. DEGETTE. And what was the business purpose for those?

Mr. COHRS. As time went by, we had various business purposes. We would buy capacity from Qwest in some cases to extend our network to locations that it didn't reach, to connect, you know, new locations.

In some cases, it was to—in the case of our U.S. network, it might have been to add capacity on specific routes or to—probably in the case of Qwest, it would have been to add some redundancy, so that our network would be more robust and have better backup capabilities, which made the network more reliable as well as more efficient.

Ms. DEGETTE. Right.

Mr. COHRS. In general, those would be the types of reasons we would do business with them.

Ms. DEGETTE. And Qwest being one of the bigger players in the industry, you were very eager to do deals with Qwest, correct?

Mr. COHRS. Well, Qwest was an important customer to us.

Ms. DEGETTE. Right.

Mr. COHRS. That is correct.

Ms. DEGETTE. I mean, Robin Wright told us, you know, it was important to keep that business relationship going and to do those deals. Would that be fair to say?

Mr. COHRS. It is certainly fair to say that it—yes, that they were an important customer, and we both bought capacity from Qwest and sold capacity to Qwest.

Ms. DEGETTE. Now, Mr. Perrone, I think you might be able to answer this question best. But if someone else has a better idea, I would like to hear it. Here is what we were told last week—that when you all did business deals, and, in particular, what we call swaps, which may not be the correct term of art, according to Mr. Cohrs, but that is what we call them—where you are doing a business deal with Qwest, your accounting methods allowed you to amortize that deal over time because you were characterizing it as a service contract.

So you didn't actually have to have anything delivered, because you could characterize it as a service contract. Would that be a fair characterization?

Mr. PERRONE. Well, I mean, just broadly speaking, all of our contracts were amortized over the life of the contracts.

Ms. DEGETTE. Right.

Mr. PERRONE. We did not recognize any revenue up front.

Ms. DEGETTE. So you did not recognize the revenue up front, correct?

Mr. PERRONE. That is correct.

Ms. DEGETTE. But Qwest had an accounting system which required it to recognize the income, the sales income, by quarter, and so they had to actually have—they had to pay money out and get something back for it, right?

Mr. PERRONE. I am not really familiar with exactly what—

Ms. DEGETTE. Well, are you familiar with the Qwest deals with Global Crossing?

Mr. PERRONE. Generally speaking, yes.

Ms. DEGETTE. I mean, isn't it true that—I mean, didn't you know that when you did a deal with Qwest they wanted to book the income at the end of each quarter, and it had—so they had to characterize the accounting transaction that way, as a sale?

Mr. PERRONE. Generally speaking, yes.

Ms. DEGETTE. Okay.

Mr. PERRONE. Yes.

Ms. DEGETTE. And, Mr. Walsh, did you know about that distinction?

Mr. WALSH. I really didn't pay much attention to—

Ms. DEGETTE. Can you put the microphone up to your—

Mr. WALSH. Yes. I really didn't pay much attention to our customers' accounting requirements and rules.

Ms. DEGETTE. Did Robin Wright or anybody else tell you about that?

Mr. WALSH. Occasionally, you would hear that there was a revenue recognition issue. That could be voiced in a sales call. But we didn't spend a lot of time trying to understand the rules and the accounting rules in the sales organization.

Ms. DEGETTE. Why not?

Mr. WALSH. From our perspective, in selling something, we always add financial and legal support to ensure that all our transactions were proper. But in terms of trying to understand the financial rules, and how they account for things, at least our customers, that would be of little interest to us.

Mr. COHRS. Congresswoman DeGette, may I clarify the record on this? The facts are that in the early part of 2001, it was not disclosed by Qwest that they were booking sales type lease revenue. And I believe the first disclosure of that came in the Morgan Stanley research reports that were published in the summer of 2001.

Ms. DEGETTE. When would that have been?

Mr. COHRS. I don't recall the exact date, but I can remember that Morgan Stanley research analysts—and this was discussed at last week's hearing—published reports that analyzed this issue. Prior to that, it was not known that—

Ms. DEGETTE. Well, once you knew it, did it change the way you dealt with Qwest?

Mr. COHRS. No.

Ms. DEGETTE. Okay. Mr. Walsh, you might want to take a look at Tab 35 in your notebook.

Mr. Cohrs, you might want to look at it, too.

Mr. COHRS. I am sorry. Which tab is it? 35?

Ms. DEGETTE. This is a memo from Robin Wright to Mr. Joggerst. And, Mr. Walsh, you are copied on this memo. And what it says is, "I wanted to alert you to"—and this is in June 2001. Okay? June 25.

"I wanted to alert you to an issue that came up this evening. It had to do with portability. Here is the deal. In our deals with Qwest, any capacity dark fiber that we buy from them has to be activated in order for them to get revenue recognition. Since in many cases we buy a bucket of services, they just activate what they can, and we, in turn, have the right to port that to what we want once we decide what we want. We have always agreed that the value of that is what we paid for it, not fair market value."

And then it goes on. Do you recall seeing that memo, Mr. Walsh?

Mr. WALSH. I don't recall specifically seeing this memo. But I do recall this issue being brought up.

Ms. DEGETTE. Tell me how you recall it being brought up.

Mr. WALSH. I don't specifically remember the forum for it, but I do remember that portability with Qwest was something that was an issue, and—

Ms. DEGETTE. And why was it an issue?

Mr. WALSH. It is an issue because when you buy services ahead of demand, let us say, buy a product that you don't know exactly who you are going to sell it to and what they are going to need immediately, you like to have a feature called portability. What that allows you to do is to turn that back in exchange for something you might need.

Ms. DEGETTE. Right.

Mr. WALSH. So that flexibility was always something that we were interested in as a buyer.

Ms. DEGETTE. And that is the nub of it, because you guys wanted portability, so that you could shift what you needed in the future, and that was just fine under your accounting system because you were amortizing that over time. You didn't need to recognize the purchase right then. You could have portability, right?

Mr. WALSH. Yes. Well, I don't know—I didn't spend a lot of time on the accounting rules.

Ms. DEGETTE. Okay. Well, Mr. Cohrs, would that be—

Mr. WALSH. But I do know from a business standpoint—

Ms. DEGETTE. Hang on. Would that be right?

Mr. COHRS. I believe that is correct—

Ms. DEGETTE. Okay.

Mr. COHRS. [continuing] as you described it.

Ms. DEGETTE. Okay. But—oh, go ahead.

Mr. WALSH. But from a business perspective, portability was something that we always looked to try to get if we could.

Ms. DEGETTE. Right.

Mr. WALSH. And it was also a sales tool which allowed us to compete against other carriers who didn't have the depth of product that we had.

Ms. DEGETTE. Right.

Mr. WALSH. So portability was really a strategic weapon that we had that we could use to compete—

Ms. DEGETTE. Right.

Mr. WALSH. [continuing] against other carriers.

Ms. DEGETTE. But for Qwest, this was a problem because you had to—because since they were booking the income at the end of every quarter, they had to say they were buying something definite, right?

Mr. WALSH. It is entirely possible. Like I said, I wasn't familiar with their accounting rules. I know there is a lot of—

Ms. DEGETTE. Well, did you become—I mean, did you become aware of the issues in this memo dated June 25?

Mr. WALSH. Yes. And I think our intention was we need portability.

Ms. DEGETTE. Okay.

Mr. WALSH. And that has always been our intention.

Ms. DEGETTE. Now, did you become aware of side agreements that Robin Wright and others entered—oral agreements that Robin Wright and others entered into with Qwest, which essentially said, "Even though we are telling you that we are selling you this, you can change it in the future"?

Mr. WALSH. The oral agreements weren't intended to change the agreement. We had requested for specific language our legal team, and we were not able to get the exact language we needed. So we were working toward a compromise on the language.

And what happened was is since we couldn't get exactly what we wanted, the account team in the group from Qwest said that, "Look, we will give you our verbal assurances that we are not interpreting this some other way. And this isn't intended to hurt you or change the spirit of the agreement."

So nothing we had from a verbal perspective was meant to change our understanding of the written contract.

Ms. DEGETTE. But later on in your dealings with Qwest, you had trouble with them because they weren't willing to give you the flexibility that they had earlier said. Is that true?

Mr. WALSH. Well, later on, you know, each one of these deals has a tendency to take on a life of its own when you negotiate them. So the fact that in the next transaction they might be looking for different terms is not unusual. In fact, that is very customary, for us to have to, you know, make modifications and—

Ms. DEGETTE. Well, yes, I understand what you are saying. But you had problems later in the future with Qwest when you tried to get that flexibility.

Mr. WALSH. Yes. You may be referring to a time after I was out of the company. I don't know.

Ms. DEGETTE. Oh. That is a good point. When did you leave?

Mr. WALSH. I left just after the third quarter.

Ms. DEGETTE. Of 2001?

Mr. WALSH. Correct.

Ms. DEGETTE. So you don't know of any deals that had that problem before that?

Mr. WALSH. No. I think—are you—I don't know if you are referring to the fact when we asked to port, they didn't port. I have heard that as an issue. But I wasn't there, I believe, when those things happened. And if I was, I was not aware of them.

Ms. DEGETTE. Okay. Mr. Cohrs, let me ask you, were you aware of some of these issues I have been discussing with Mr.—



Mr. COHRS. No, not at the time, I was not. I was——

Ms. DEGETTE. When did you become aware of those issues?

Mr. COHRS. In the course of preparing for these hearings and dealing with some of these issues in the investigations.

Ms. DEGETTE. Okay. If you could take a look quickly at Tab 40. And it says—I guess it is referring to a newspaper story. It is from you to a bunch of people, and it says, “The story is that Qwest is booking sales type lease revenue as GAAP revenue,” which is what I am just discussing with these others, “and not breaking it out. At least we get credit for breaking it out. The bad news is this is raising visibility on the swap issue.” What did you mean——

Mr. COHRS. I would just like to clarify when I said I wasn’t——

Ms. DEGETTE. Yes.

Mr. COHRS. I was talking about these portability issues when I said I wasn’t aware at the time.

Ms. DEGETTE. Okay.

Mr. COHRS. But I was certainly aware of this.

Ms. DEGETTE. Sure. All right. Well, tell me what you meant by that memo.

Mr. COHRS. By this memo?

Ms. DEGETTE. Yes.

Mr. COHRS. Well——

Ms. DEGETTE. The bad news is this is raising visibility on the swap issue.

Mr. COHRS. Well, this is—this really relates directly to what I said earlier. Swap is a term that we were very careful about how we used publicly. In other words, we were getting questions about, are these concurrent transactions? Are they swaps? The answer to that was no, they were not swaps. And it was sort of an issue in the sense that it was being discussed, and analysts and investors were asking us, are these swaps?

Ms. DEGETTE. What is the problem with swaps?

Mr. COHRS. The answer to that is no. From an accounting point of view, they were not swaps.

Ms. DEGETTE. Okay. What is the——

Mr. COHRS. But it is not——

Ms. DEGETTE. What is the problem with swaps?

Mr. COHRS. Well, because it is a substantive distinction, not just an accounting distinction, because the fundamental difference between what I would call a swap and what I would call a concurrent transaction is that—is business purpose.

Ms. DEGETTE. Right.

Mr. COHRS. In other words, when we did these transactions, we had business purpose, business cases, justifications, demand studies, financial forecasts, etcetera, that were carefully prepared and approved that showed that we had good business reasons for what we are doing.

Part of the importance of that was that those business cases actually were important for determining the fair value of the assets. Without such business cases, it was our policy, it was our accounting policy, that these transactions would have been booked at carryover basis, rather than fair value.

Ms. DEGETTE. I understand completely what you are saying. My question is: what is the problem with swaps? Is it that in the defi-

dition you are talking about and referring to in this memo, Tab 40, that the swaps you are referring to would be deals that have no business purpose?

Mr. COHRS. If the deals we did were “swaps,” using that term carefully, then you would say—if it was a swap, it would be booked at historical value, meaning no revenue or no cash revenue. But the reason, if you went back to, why would you book it as a swap, the reason for that would have been no valid business purpose. But, in fact, we had valid business purpose.

Ms. DEGETTE. Right. I understand. I kind of look at——

Mr. COHRS. And that is the heart of the issue.

Ms. DEGETTE. Exactly.

Mr. COHRS. And the heart of why we did not refer to these as swaps.

Ms. DEGETTE. Right. But, I mean, in my lay person’s view, there can be legitimate swaps, if there is a legitimate business reason, but what——

Mr. COHRS. I agree with that. I just would not use the word “swaps,” but I understand what you——

Ms. DEGETTE. Because it is taking on a bad connotation?

Mr. COHRS. Because it takes—because the word “swaps” then takes—the word “swaps” takes us into the accounting definition of swaps, which means if it is an accounting swap, it has no valid business purpose.

Ms. DEGETTE. Okay.

Mr. COHRS. And that is what I am—why I am trying to be very careful about not using the word “swaps.”

Ms. DEGETTE. Okay. So getting back to my original question, what were you meaning when you wrote this memo? “The bad news is that this is raising visibility on the swap issue.” Were you concerned as of August 3, 2001, about swaps?

Mr. COHRS. Well, my concern was that people were confusing the issue very much along the lines of the interchange we just had. People were saying, “Aren’t these just swaps?” and we were saying, “No, these are simultaneous purchases and sales properly booked at fair value.” We were relying on the accounting policy approved by Arthur Andersen at the time to do this accounting. By the way, approved by Arthur Andersen and reviewed by every other major accounting firm.

At this time, my concern was not—had to do with the characterization of these transactions as swaps. When this memo was written, we had already disclosed in two press releases that we were doing the transactions.

Ms. DEGETTE. Okay. But then you—but you say, “The story says that Qwest is booking sales type lease revenue as GAAP revenue and not breaking it out.” Is that why you were concerned? Was this the first you found out that Qwest was doing that?

Mr. COHRS. I believe so, yes. I don’t recall exactly, but this——

Ms. DEGETTE. So you don’t recall learning earlier from any of your sales team that these—that transactions had to be characterized in the agreements in a certain way, because Qwest had to recognize its income in a certain way?

Mr. COHRS. I don’t have a recollection of that before this, no.

Ms. DEGETTE. And so the first—so your testimony is the first you found out about that was in August when you saw apparently some kind of story?

Mr. COHRS. To the best of my recollection, that is—yes, that is my testimony.

Ms. DEGETTE. Okay. And what happened after this memo as a result of your I guess I don't know—the e-mail? I don't know what it was. It looks like an e-mail—

Mr. COHRS. I believe it was.

Ms. DEGETTE. [continuing] to this team of people. Did you guys discuss what you should do about the issue of this memo, that Qwest is booking sales type lease revenue as GAPP, and that it is raising visibility on the swap issue? What did you do about that?

Mr. COHRS. There was nothing required for us to do.

Ms. DEGETTE. Well, I mean, you were concerned about it, right?

Mr. COHRS. I wasn't concerned about how Qwest was doing their accounting. I mean, that is—

Ms. DEGETTE. What were you concerned about?

Mr. COHRS. Well, as I said, there was a discussion going on at the time in which the term “swaps” was being misused and misunderstood.

Ms. DEGETTE. And why were you concerned?

Mr. COHRS. And I was concerned because the implication of people who—people who—I am talking about Global Crossing now.

Ms. DEGETTE. Right. I understand, yes.

Mr. COHRS. Because people who referred to our transactions as swaps were—by using the word “swaps,” were implying that the transactions had no good business purpose, in my—in the way we were using the term at the time.

Ms. DEGETTE. So you felt that they were implying that Global Crossing had no business purpose. You weren't worried about Qwest.

Mr. COHRS. Correct.

Ms. DEGETTE. And do you know, or any of the rest of you gentlemen know, after August 3, 2001, did Global Crossing take any measures in negotiating its deals with Qwest to alleviate some of the issues raised here? In other words, to make it—to make the transactions make—look more transparent, or to make them look like there really was a business purpose, and that they weren't just swaps with no business purpose.

Mr. COHRS. When we were analyzing the business purpose, we were concerned about the business purpose for Global Crossing in these transactions.

Ms. DEGETTE. Okay.

Mr. COHRS. And, you know—

Ms. DEGETTE. Let me try again.

Mr. COHRS. Qwest accounting and—

Ms. DEGETTE. I am just trying to ask a simple question.

Mr. COHRS. Yes.

Ms. DEGETTE. Did you, or any of the rest of you gentlemen, take any action after August 2001 to make sure your contracts with Qwest were transparent in terms of what was being bought and what was sold, so it was clear that there was this legitimate business purpose?

Mr. GREENWOOD. This will have to be the last question.

Mr. COHRS. It is my understanding that the contracts always made it clear what was being bought and sold. I don't—I am not aware of any fundamental change that was made.

Ms. DEGETTE. Anyone else?

Thank you, Mr. Chairman.

Mr. GREENWOOD. Thank you.

One quick final question that I would like to address to Mr. Gorton. It refers to Tab 41. On August 6, you received a letter that was written by Roy Olofson, who—

Mr. GORTON. That is correct.

Mr. GREENWOOD. [continuing] testified last week he views himself as a whistleblower. He raised a lot of questions about how Global Crossing was conducting its business. He said this is a very—in the last paragraph, he said, “This is a very complex issue that needs to be addressed. As an employee and a shareholder of Global Crossing, I believe that a thorough investigation of all of the facts should be undertaken and the appropriate action be taken immediately to correct any improprieties. I feel strongly that neither Dan Cohrs nor Joe Perrone should be involved in this investigation. Furthermore, Joe Perrone and Arthur Andersen may have a conflict of interest inasmuch as he was the engagement partner on Global Crossing prior to joining the company.”

I believe last night you told our investigators that you were told not to take this letter to the audit committee. Is that what you told our investigators last night?

Mr. GORTON. I had a meeting with—

Mr. GREENWOOD. Pull your microphone up close to you, please, sir.

Mr. GORTON. I am sorry. We had a—after receiving this letter, I think I got this letter on a Monday afternoon, and there was going to be an audit committee meeting on the Wednesday, which was 2 days later. And there was a meeting, and I can't recall who the people were because—the reason I remember is I asked the question whether this letter was going to be presented at the audit committee meeting.

I had only been to one audit committee meeting in the history of Global Crossing, and that was to explain some litigation that we had just brought.

On the basis of hearing that they weren't going to take it to the audit committee at that time—and I felt their reasons were good. They said that they felt that they had just gotten it, and it would be very quick to try to react to it at this moment and give it to the audit committee.

I still felt, since I had already announced that I was leaving Global Crossing, that it was important for the chairman of the audit committee to know about this. So I actually went to the audit committee meeting on Wednesday, and I saw a break in the meeting, and I asked the chairman to come out into the hall, at which point I told him that we had received this letter.

Mr. GREENWOOD. When you left Global Crossing, did you leave, in part, because you had concerns about the propriety of some of these transactions?

Mr. GORTON. No. I had other reasons for leaving Global Crossing.

Mr. GREENWOOD. Okay. Pardon me?

Mr. GORTON. Would you like me to—

Mr. GREENWOOD. I would appreciate it if you would expand upon that.

Mr. GORTON. Okay. Principally, the people I had come into the company with, the early founders of the company—Barry Porter, Abbott Brown, David Lee—and the early CEOs of the company—Jack Scanlon and Bob Anunziata—were all very close relationships of mine, and they had all left.

And when they left, my role in the company really changed from being one of—it was much more a consensus decisionmaking process at that time, and I had had sort of a valued business role. As time developed after they left, my role became much more the person who headed the legal department. And while that is a great job, it just wasn't the job that I was comfortable with in Global Crossing. And that was the primary factor in my going.

Mr. GREENWOOD. Very well. Thank you.

I want to thank all of you for coming. It has been 5 hours. We all appreciate your willingness to be here and to testify, and you are excused.

I would—for the benefit of us all, I would note that we will now take a break until 2:30, at which time we will call forward the Qwest panel.

The committee is in recess.

[Recess.]

Mr. GREENWOOD. The committee will come to order. Our guests will please be seated.

And we welcome our panel for this afternoon. Let me introduce them. They are Mr. Joseph Nacchio, the former Chairman and Chief Executive of Qwest Communications International. We welcome you, sir. Thank you for being here.

Mr. Afshin Mohebbi, the President and Chief Operating Officer of Qwest Communications. We welcome you, sir.

Mr. Peter Hellman, who is the Chairman of the Audit Committee of Qwest Communications. Thank you for joining us.

And Mr. Oren Shaffer, the Vice President and Chief Financial Officer of Qwest Communications International.

Gentlemen, you are I think aware that this is—this committee is holding an investigative hearing. And when we hold investigative hearings, it is our practice to take testimony under oath. Do any of you object to offering your testimony under oath today?

Okay. Seeing no such objections, I should advise you that pursuant to the rules of this subcommittee, and the rules of the House of Representatives, each of you is entitled to be represented by counsel.

Mr. Nacchio, are you represented by counsel today?

Mr. NACCHIO. Yes, I am, sir.

Mr. GREENWOOD. Would you identify him by name?

Mr. NACCHIO. Mr. Charles Stillman.

Mr. STILLMAN. Good afternoon, sir.

Mr. GREENWOOD. Good afternoon. Welcome, sir.

Mr. Mohebbi, are you represented by counsel?

Mr. MOHEBBI. Yes, Mr. Chairman.

Mr. GREENWOOD. And who is that?

Mr. MOHEBBI. Mr. Paul Grand.  
 Mr. GREENWOOD. And which one is he? Mr. Grand, welcome.  
 Mr. GRAND. Thank you. And also, my partner Jack Tyke.  
 Mr. MOHEBBI. And Mr. Jack Tyke.  
 Mr. GREENWOOD. And Mr. Shaffer, are you represented by counsel?  
 Mr. SHAFFER. I am, Mr. Chairman.  
 Mr. GREENWOOD. And that is?  
 Mr. SHAFFER. It is Mr. Joseph Brenner.  
 Mr. GREENWOOD. Okay. Welcome, sir.  
 And Mr. Hellman?  
 Mr. HELLMAN. Yes, I am, Mr. Chairman.  
 Mr. GREENWOOD. And your attorney is?  
 Mr. HELLMAN. Jim Lyons.  
 Mr. GREENWOOD. Okay. And that is the gentleman right there.  
 Thank you. Okay.  
 In that case, if you would rise and raise your right hand, I will swear you in.  
 [Witnesses sworn.]  
 Okay. You may be seated. You are under oath.  
 And, Mr. Nacchio, do you have an opening statement?  
 Mr. NACCHIO. Yes, Mr. Chairman, I do.  
 Mr. GREENWOOD. You are recognized to give it, then.  
 Mr. NACCHIO. Thank you.  
 Mr. GREENWOOD. For 5 minutes.

**TESTIMONY OF JOSEPH P. NACCHIO, FORMER CHAIRMAN AND CHIEF EXECUTIVE OFFICER, QWEST COMMUNICATIONS INTERNATIONAL INC.; AFSHIN MOHEBBI, PRESIDENT AND CHIEF OPERATING OFFICER, QWEST COMMUNICATIONS INTERNATIONAL INC.; PETER S. HELLMAN, CHAIRMAN OF THE AUDIT COMMITTEE, QWEST COMMUNICATIONS INTERNATIONAL INC.; AND OREN G. SHAFFER, VICE PRESIDENT AND CHIEF FINANCIAL OFFICER, QWEST COMMUNICATIONS INTERNATIONAL INC.**

Mr. NACCHIO. Mr. Chairman, distinguished members of the committee, my name is Joseph Nacchio, and I am the former Chief Executive Officer and Co-Chairman of the Board of Directors of Qwest Communications. I welcome this opportunity to assist the committee in its investigation.

As the committee should know, I have made every effort to aid the various investigations concerning Qwest. I am here today voluntarily, and I spent a day with the SEC, and I believe about 5 hours with the staff of this committee on September 19.

When I became the CEO of Qwest in 1997, we set out to create a world-class, national, and global telecommunications network. We did by buying a telecommunications infrastructure, initially digging trenches to lay conduit and fiber optics cable along railroad rights-of-way. We also spanned gaps in our network by acquiring capacity or facilities built by other companies.

From the beginning, we were able to finance our activities and defer construction costs by selling as much as half the fiber in our network to other telecommunications companies. In the late 1990's, technology made it increasingly practical to sell permanent rights

to the wave lengths or signals carried over fiber optics networks rather than simply selling the fiber itself. These rights are commonly referred to as infeasible rights of use or IRUs.

For Qwest, there were important reasons for selling IRUs and for buying them. Selling allowed Qwest to raise capital and expand the number of carriers and service providers operating on our network. Buying IRUs allowed us to expand our network quickly, more cost effectively, and without the regulatory hurdles that came with building our own facilities. Sales of IRUs never accounted for more than 5 percent of our annual income—annual revenues.

While the individual transactions rarely warranted my involvement as CEO, I believed each transaction was subject to meaningful oversight and review by the relevant business units, the finance department, and the legal department of Qwest. The company relied on the advice of its outside auditors for proper accounting treatment.

The CFO could bring any matter to the attention of the board of directors, independent audit committee, of which I was not a member. When Qwest was selling IRUs, we were informed by our outside auditors that under the generally accepted accounting principles the sales of IRUs, if they met certain criteria, qualified as sales type leases that should be booked as current revenues.

During my tenure as CEO, to my knowledge, every purchase of capacity by Qwest was with the intent of furthering the company's business plan. That plan was to build a truly world-class national and fiber optics network. We have a map to my left, to your right. That is what we were building.

The network was constructed to meet the forecasted demand of the explosive growth in internet traffic, which the U.S. Department of Commerce estimated to be doubling every 100 days.

Qwest's purchase capacity—had I been aware of any proposal for Qwest to purchase capacity solely to induce a contemporaneous sale, to inflate revenues, I would have vetoed the deal.

I also want to tell you I had no reason to believe that senior management at Qwest tolerated unethical conduct or forced employees to meet unrealistic earnings forecasts. The operating budgets, including revenue, were ultimately subject to the review and approval of the full board of directors, to whom I reported.

Once budgets were in place, neither I nor, to my knowledge, did any senior manager ever suggest, tacitly or expressly, that the company should attempt to meet its budget by "cooking the books or fabricating IRU transactions." Indeed, in late June 2001, in the one IRU transaction in which I recall personal involvement, I killed a \$680 million transaction because it did not meet Qwest's business or financial goals. And I told three board members that, as a result, I thought there was a possibility that Qwest would not meet its budget for the second quarter.

That same year, on September 10, 2001, I announced that Qwest was lowering its guidance for the third quarter, and for the balance of 2001, due to softening market conditions across Qwest's entire business, including a foreseen drop in the company's sales of IRUs.

Furthermore, I never suggested that unethical conduct of any kind would be tolerated. During my tenure as CEO, I believe all company employees from senior officers to sales personnel were re-

quired to act in compliance with the Qwest Code of Conduct. The Qwest Code of Conduct are guidelines demanding the highest level of ethics and responsibility, including responsibility against specific directives, against falsifying financial records or using unethical or deceptive means to make sales.

It is true that I earned significant compensation from the sale of Qwest stock. The compensation I received as CEO was honestly come by. I paid full taxes on it. I worked my entire 32-year career in the telecom industry as an engineer, a marketing executive, and then as a senior executive. I was not born into wealth.

I want this committee to know, as the press has seen fit to ignore, that my stock sales derived from stock options granted in 1997, that carried a five and a half year maturity, leaving me with the choice of exercising options or losing them entirely.

I sold my shares based upon advice of my financial advisors in order to diversify my holdings, yet I have always remained heavily invested in Qwest. Today, I still own—hold 470,000 shares. When I sold shares, I did so in full compliance with all applicable regulations and with all necessary and appropriate disclosures to the Securities and Exchange Commission and to the Board of Directors.

Any time I sold Qwest stock, I believed the company's financial statements represented a full and accurate picture of its financial condition. I regret that I was unable to complete the job of building Qwest into a global telecommunications leader that we had envisioned. And I am truly sorry for any losses suffered by Qwest share owners, but particularly for the thousands of Qwest employees who have lost their jobs as the telecommunication industry and Qwest has fallen onto hard times.

I now appear voluntarily before this honorable committee to answer all of its questions completely and to the best of my ability.

Thank you.

[The prepared statement of Joseph P. Nacchio follows:]

PREPARED STATEMENT OF JOSEPH P. NACCIO, FORMER CHIEF EXECUTIVE OFFICER  
AND CO-CHAIRMAN, BOARD OF DIRECTORS, QWEST COMMUNICATIONS

Mr. Chairman, distinguished members of the Committee, my name is Joseph Nacchio, and I am the former Chief Executive Officer and Co-Chairman of the Board of Directors of Qwest Communications. I welcome this opportunity to assist the Committee in its investigation. As this Committee should know, I have made every effort to aid the various investigations concerning Qwest: I testified before the SEC, I met for hours with this Committee's staff, and I appear voluntarily today. I do so out of respect for my government, and my own sense of responsibility. It is with this same sense of respect and responsibility that I served, until recently, as Chairman of the President's National Security Telecommunications Advisory Committee and as Chairman of the Federal Communications Commission's Network Reliability and Interoperability Committee.

When I became the CEO of Qwest in 1997, we set out to create a world class national and global telecommunications network. We did this by building a telecommunications infrastructure, initially digging trenches to lay conduit and fiber optic cable along railroad rights-of-way. We also spanned gaps in our network by acquiring capacity or facilities built by other companies. From the beginning, we were able to finance our activities and defer construction costs by selling as much as half the fiber in our network to other telecommunications companies. In the late nineties, technological advances made it increasingly practical to sell permanent rights to the wavelengths or signals carried over fiber optic networks, rather than simply selling the fiber itself. These rights are commonly referred to as indefeasible rights of use or IRUs.

For Qwest, there were important reasons for selling IRUs and for buying them. Selling IRUs allowed Qwest to raise capital and to expand the number of carriers



and service providers operating on our network. Buying IRUs, on the other hand, often allowed us to expand our network more quickly, more cost effectively, and without the regulatory hurdles that came with building our own facilities. IRU transactions therefore had strategic importance to Qwest, although financially they remained a small portion of our business, with sales of IRUs never accounting for more than five percent of annual revenue.

Qwest became a substantial purchaser and seller of IRUs at a time when the demand for fiber optic capacity to build and expand global networks was at record levels following the Internet boom of the late nineties. We found that we could leverage our buying power by persuading potential sellers of capacity to purchase their needed IRU capacity from Qwest. As a result, many of the IRU transactions executed by Qwest involved contemporaneous transactions—what some have called “swaps”—transactions where each party is both selling capacity in certain areas and buying network capacity in other areas.

That is the context in which these transactions arose, and as members of this Committee have acknowledged, there is nothing inherently suspicious about the mere fact of simultaneous IRU transactions. While the individual transactions rarely warranted my involvement as CEO, I believe each transaction was subject to meaningful oversight and review by the relevant business units, the finance department, and the legal department. With respect to matters of financial accounting for these transactions, the company relied on the advice of its outside auditors along with Qwest’s financial staff who reported to the company’s Chief Financial Officer. The CFO in turn could bring any matter to the attention of the Board of Directors independent audit committee, of which I was not a member. When Qwest was selling IRU capacity, we were informed by our outside auditors that, under Generally Accepted Accounting Principles, the sale of IRUs, if they met certain define criteria, qualified as sales-type leases that should be booked as current revenue. At the time, we had no reason to doubt Arthur Andersen’s advice, then one of the country’s leading accounting firms.

Today, I am of course aware of allegations that these contemporaneous transactions were sham deals designed to inflate revenues to meet earnings forecasts. I am in no position to comment on the motives of other companies, such as Global Crossing, who are alleged to have purchased capacity they did not need. I can tell you that during my tenure as CEO, to my knowledge every purchase of capacity by Qwest was with the intent of furthering the company’s business plan. That plan was to build a truly world class national and international fiber optic network. Our plan was ambitious, but it also sought to be selective. Had I been aware of any proposal for Qwest to purchase capacity solely to induce a contemporaneous sale in order to inflate revenues, I would have vetoed the deal. That is not the way Qwest did business. That is not the way I did business.

I also want to tell you that I had no reason to believe that senior management at Qwest tolerated unethical conduct or forced employees to meet unrealistic earnings forecasts. The company’s operating budget, including revenue, reflected the collective knowledge of the entire company, with input from individual operating units, coordination and oversight by the CFO and the president, and approval by me as the CEO. The operating budgets, including revenue, were ultimately subject to the review and approval of the full Board of Directors, to whom I reported. In addition, the compensation schedule derived from these budgets were reviewed and approved by the Board’s Compensation Committee. Once budgets were in place, neither I nor to my knowledge did any senior manager ever suggest, tacitly or expressly, that the company should attempt to meet its budget by “cooking the books,” or fabricating IRU transactions.

To the contrary, in late June 2001, in the one IRU negotiation in which I recall personal involvement, I killed a \$680 million transaction because it did not meet Qwest’s business or financial goals, and I told three Board members that, as a result, there was a possibility that Qwest would not meet its budget for the second quarter. That same year, on September 10, 2001, I announced to our investors and the analyst community that Qwest was lowering its guidance for the third quarter and the balance of 2001 due to softening market conditions across Qwest’s business, including a foreseen drop in the company’s sales of IRUs. And I subsequently recommended to the Compensation Committee on two occasions that we lower the financial targets that were used to determine employee bonuses, because I did not want to punish our workforce for a sagging economy.

Furthermore, I never suggested that unethical conduct of any kind would be tolerated. During my tenure as CEO, I believe all company employees, from senior managers to sales personnel, were required to act in compliance with Qwest’s Code of Conduct. The Qwest Code of Conduct is a set of guidelines demanding the highest levels of ethics and responsibility, including specific directives against falsifying fi-

nancial records or using unethical or deceptive means to make sales. It is my understanding that in appropriate cases, employees found to have engaged in unethical or illegal conduct were disciplined, discharged, and in some cases referred to law enforcement authorities for prosecution. Recent suggestions that Qwest's workers operated in an ethical vacuum cast an undeserved stigma upon the company's 55,000 men and women who built one of the most robust and diverse telecommunications companies in the country.

It is true that I earned significant compensation from the sale of Qwest stock. The compensation I received as CEO was honestly come by. I paid full taxes on it. I worked my entire 32-year career in the telecom industry as an engineer, a marketing executive, and then a senior executive. I was not born into wealth. I want this Committee to know, as the press has seen fit to ignore, that my stock sales derived from stock options granted in 1997 that carried a 5-and-a-half year maturity, leaving me with the choice of exercising the options or losing them entirely. I sold shares based upon the advice of my financial advisors in order to diversify my holdings. Yet I have always remained heavily invested in Qwest, and today I still hold 470,000 Qwest shares. When I sold shares, I did so in full compliance with all applicable regulations, and with all necessary and appropriate disclosures to the SEC and the Board of Directors. I always believed in the value of the company, and when I eventually implemented a daily stock-selling plan, I placed a stop order at 38 dollars, a stop order that I never lifted. As a result, once Qwest stock dropped below 38 dollars in May 2001, I never exercised my remaining options, roughly two thirds of those I was granted from Qwest, and I never sold a single share of Qwest stock.

At any time I sold Qwest stock, I believed that the company's financial statements represented a full and accurate picture of its financial condition. I regret that I was unable to complete the job of building Qwest into the global telecommunications leader we had envisioned, and I am truly sorry for any losses suffered by Qwest's shareholders and for the thousands of Qwest employees who lost their jobs as the telecommunications industry and the company fell into hard times. I now appear voluntarily before this honorable Committee to answer all of its questions completely and to the best of my ability.

Mr. GREENWOOD. Thank you, Mr. Nacchio.

Mr. Mohebbi, do you have an opening statement?

Mr. MOHEBBI. Yes, I do.

Mr. GREENWOOD. You are recognized for 5 minutes.

#### TESTIMONY OF AFSHIN MOHEBBI

Mr. MOHEBBI. Thank you very much, Mr. Chairman, ranking member, and members of the subcommittee. My name is Afshin Mohebbi, and I am President and Chief Operating Officer of Qwest Communications International Inc. I would like to thank you for inviting me to appear at this important hearing today.

Qwest has a state-of-the-art worldwide fiber optic network running throughout the United States, Asia, and Latin America. Our strategy in building our domestic network was to construct facilities for our own use while, at the same time, building facilities for sale to our customers. As we completed that project, we sought to expand overseas. Qwest decided that it would be more efficient to purchase rather than build its international facilities.

It was in this context that Qwest entered into IRU transactions with other companies. The purchase and sale of IRUs were a major part of our consistent business strategy to build a global network and create shareholder value. In some cases, Qwest entered into IRU transactions where we bought and sold capacity from the same customers at or near the same time.

These transactions were not sham transactions. I believe we were buying capacity we needed and were selling capacity that we had built to be sold. There are established policies and processes at Qwest through which all large contracts that the company en-

ters into must pass prior to being finalized. Each IRU contract is shepherded through the process by a team of Qwest employees to ensure that it is both beneficial to Qwest and meets all legal and accounting requirements.

Each team consists of employees from numerous departments, including sales, engineering, accounting, finance, and legal. It is these specialists who made the determinations as to how transactions would be booked and how the contracts would be finalized.

At the hearing last week, a question arose as to whether Qwest's policies and procedures had been undercut by secret side agreements. Since I joined Qwest, the company has entered into hundreds of transactions. I know of no side agreement that altered the substance of any Qwest IRU transaction.

There were discussions at last week's hearing regarding an e-mail sent under my name relating to a transaction with the company Cable & Wireless. Three essential points must be made on that subject.

First, the e-mail was reviewed and approved by a number of members of the transaction team, the legal department, and contract management group before it was sent.

Second, while I do not recall sending the e-mail, I will take full responsibility for it.

Third, I believe, as does the company, that this e-mail did not create a unilateral right to port or upgrade for Cable & Wireless, but, rather, provided a pricing schedule to be used should both companies later agree to do another transaction.

I also want to address the allegation that senior managers at Qwest created an inappropriate tone at the top concerning compliance and ethical issues. Qwest employees worked tirelessly to expand our company, meet our goals, and provide world-class service to our customers. We pushed ourselves hard to meet our goals, and I, along with other executives, encouraged our employees to sell our products and services. But I did not authorize or encourage anyone to cut ethical or procedural corners.

Moreover, I felt there was nothing wrong with encouraging our employees to meet targets, and today I feel the same way. Companies in competitive markets like ours must constantly strive to sell our products and generate revenue. Our shareholders expect nothing less.

Mr. Chairman, I take pride in the progress Qwest has been making and the work that I have done here during the three and a half years of my tenure at the company. In record time, we have greatly improved the quality of local telephone service that we provide to our customers, as shown in data published by the Federal Communications Commission.

I have the utmost faith in the vast potential of our company, as well as the ability and ethics of our employees. As a result, I have never sold a single share of Qwest stock or exercised a single Qwest stock option. In fact, earlier this year, I purchased approximately 25,000 additional shares in the company. I am fully committed to the long-term success of my company.

Thank you for the opportunity to make this statement and provide testimony today. As you know, I am appearing here voluntarily and have cooperated fully with the subcommittee and its

staff. And I would be glad to respond to any questions that the subcommittee may have.

[The prepared statement of Afshin Mohebbi follows:]

PREPARED STATEMENT OF AFSHIN MOHEBBI, PRESIDENT AND CHIEF OPERATING OFFICER, QWEST COMMUNICATIONS INTERNATIONAL INC.

Good morning, Mr. Chairman and members of the Subcommittee. My name is Afshin Mohebbi. I am the President and Chief Operating Officer of Qwest Communications International Inc. I would like to thank you for inviting me to appear voluntarily at this important hearing today.

Please permit me to tell you a little bit about my company. Qwest is a local telephone company with more than 25 million customers, serving a 14-state area throughout the West. We have 55,000 employees, more than 55,000 retirees and annual revenues of more than \$17 billion. We also are the nation's fourth-largest long-distance company and do business with more than 60% of the Fortune 1,000 companies worldwide.

Qwest has a state-of-the-art worldwide fiber optic network running throughout the United States, Asia and Latin America. Our strategy in building our domestic network was to construct facilities for our own use while, at the same time, building facilities for sale to our customers. The sales of conduit, fiber and optical capacity that Qwest made to customers in accordance with this business strategy paid for a substantial portion of the cost of building our U.S. network. As we completed that project, we sought to expand overseas. Qwest decided that it would be more efficient to purchase, rather than build, its international facilities.

It was in this context that Qwest entered into IRU transactions with other companies. An IRU is an "indefeasible right of use," which is the exclusive right to use a specified amount of capacity or fiber for a specified period of time, usually 20 years or more. IRUs are for specific point-to-point assets. The purchase and sale of IRUs were a major part of our consistent business strategy to build a global network and create shareholder value.

In some cases, Qwest entered into IRU transactions that occurred at or near the same time. Though close in time, it was believed that the contracts for the optical capacity were separate agreements, individually enforceable. I do not believe that these transactions were "sham" transactions. I believe we were buying capacity we needed and were selling capacity we had built to be sold.

There are established policies and processes at Qwest through which all large contracts that the company enters into must pass prior to being finalized. Each contract is shepherded through the process by a team of Qwest employees assigned to the transaction. In order to ensure that the transaction both is beneficial to Qwest and meets all legal and accounting requirements, each transaction team consists of a diverse group of employees from numerous departments, including Sales, Engineering, Accounting, Finance and Legal. Each team has members whose responsibility it is to make sure that Legal, Finance and Accounting approve of the transaction. The experts at Qwest in those areas made the determinations as to how transactions would be booked and how the contracts would read.

At the hearing before this Subcommittee last week, a question arose as to whether Qwest's policies and procedures had been undercut by secret side agreements. Since I joined Qwest, the company has entered into hundreds of transactions. I know of no side agreement that has altered the substance of any of Qwest's IRU transactions.

There was discussion at last week's hearing regarding a particular e-mail relating to a transaction with the company Cable & Wireless. Three essential points must be made on that subject. First, the e-mail was reviewed and approved by a number of members of the transaction team, the Legal Department and contract management group before it was sent. Second, while I do not recall sending the e-mail, I take full responsibility for it. Third, I believe, as does the Company, that it did not create a unilateral right to port or upgrade for Cable and Wireless, but, rather, provided a pricing schedule to be used should both companies later agree to another transaction.

I also want to address the allegation that senior managers at Qwest created an "inappropriate tone at the top" concerning compliance and ethical issues. Qwest employees worked tirelessly to expand our company, meet our goals and provide world-class service to our customers. We pushed ourselves hard to meet our goals and I along with other executives encouraged our employees to sell our products and services. But I did not authorize or encourage anyone to cut ethical or procedural corners.

Moreover, I felt there was nothing wrong with encouraging our employees to meet targets and today I feel the same way. Companies in competitive markets like ours must constantly strive to sell our products and generate revenue; our shareholders expect nothing less.

Mr. Chairman, for the past three and a half years, I have dedicated myself to serving Qwest and its shareholders. In June 1999, I joined the company as President and Chief Operating Officer. In July 2000, after Qwest merged with US West, I became President of Network and Worldwide Operations. And in April 2001, I was appointed Chief Operating Officer, a position that had been eliminated after the US West merger.

I take great pride in the progress Qwest has made and the work that I have done during my tenure at the company. In record time, we have greatly improved the quality of local telephone service that we provide to our customers, as shown in data published by the Federal Communications Commission. I have the utmost faith in the vast potential of our company, as well as the ability and ethics of our employees. For these reasons and others, I have never sold even a single share of Qwest stock or exercised a single Qwest stock option. In fact, earlier this year I purchased approximately 25,000 additional shares in the company. I am fully committed to the long-term success of our company.

Thank you for the opportunity to make this statement and provide testimony today. As you know, I am appearing here voluntarily and have cooperated fully with the Subcommittee and its staff, as I have with other congressional committees. I would be glad to respond to any questions the Subcommittee may have.

Mr. GREENWOOD. Thank you, Mr. Mohebbi.

Mr. Shaffer, do you have an opening statement?

Mr. SHAFFER. I do, Mr. Chairman.

Mr. GREENWOOD. You are recognized for 5 minutes.

#### **TESTIMONY OF OREN G. SHAFFER**

Mr. SHAFFER. I am Oren Shaffer.

Mr. GREENWOOD. Make sure that microphone is directed toward you, please. That is good. That is better.

Mr. SHAFFER. I am Oren Shaffer. I joined Qwest less than 3 months ago as the company's Vice Chairman and Chief Financial Officer, and I am pleased to be here today to discuss what we have done, what we are going to do, and to address some of the issues that are of concern to me, to this subcommittee, and to the company, as well as our external constituencies.

Let me begin by stating that Qwest faces significant challenges. Primary among these are saving the company, its 55,000 jobs, the communications service it provides to 25 million customers, and returning Qwest to the stability that our 50,000 plus retirees were part of building.

To accomplish this, we must first gain the confidence of our employees, customers, investors, and regulators. We must put the questions about our accounting behind us. In this regard, I have been analyzing these issues as expeditiously as possible.

As I will explain, we are well underway in an analysis of the company's accounting for IRU transactions and are addressing other accounting issues. We have publicly announced that this process will result in a restatement of Qwest's financial statements, and we have disclosed the total amounts of IRU revenue and profits potentially at issue and the company's interim conclusions to date.

We, along with our new auditors KPMG, have initiated a review of the company's internal control systems and processes, combined with an overall risk assessment to identify those high-risk accounting areas that may require special attention. We are committed to

making any changes that are appropriate in systems or in personnel to ensure that the kinds of accounting problems we are finding do not occur again.

At the same time, Qwest has made significant progress in improving the financial health of the company and refocusing management's attention on profitable and sustainable growth once we weather this difficult economic climate. One major step was entering into a definitive agreement for the sale of our directory services business, QwestDex, for more than \$7 billion. This transaction will be a key to our continuing effort to decrease the \$25 billion of debt we find on our balance sheet.

Qwest has also amended its \$3.4 billion credit facility and obtained \$750 million of new funding. With our current commitments and obligations, we will have the liquidity to operate through 2005, which should allow us to implement the business plan that new management is establishing.

Central to our efforts is winning the confidence of our employees. Our new Chairman and CEO, Dick Notebaert, has the vision and experience to lead this cultural change by emphasizing open communications, doing what you believe is right, and transparency in all parts of the work environment.

Qwest disclosed in its 2001 Form 10-K that the total review recognized from IRU transactions in the 2000 and 2001 financial statement was approximately \$1.48 billion, and that this amount might be subject to adjustment. Since I arrived in July, the company has made subsequent disclosures on July 28, August 19, and September 22. And on each occasion, Qwest has told the public the status of the ongoing accounting analysis and the probable magnitude of the restatement of Qwest's 2000 and 2001 financial statements.

Now, we have significantly narrowed the focus of the remaining examination following our conclusion that two-thirds, or approximately \$950 million, of the IRU revenue in 2000 and 2001 must be reversed. The remaining \$531 million of IRU revenue in this period remains under examination, and we anticipate reaching further conclusions on these within a matter of weeks.

We are continuing to review these remaining IRU transactions and certain other accounting issues that we have identified. We are committed to concluding this process as promptly as possible.

There are two messages I want to give the subcommittee today. First, my only goal is to get it right. With the assistance of KPMG and other professional advisors, I will call them as I see them. If the accounting is wrong, we will fix it, and we will make the appropriate disclosure.

Second, as part of this process, we will strengthen our internal control systems and establish an environment where only the best practices are tolerated.

I also want to leave the committee with a sense of what we have achieved in the short period that Dick and I have been at Qwest. I believe that Qwest is increasingly well positioned to achieve greater stability and profitability in the future, bringing with it the benefits of 55,000 jobs, and the significant economic impact of a world-class communications service provider. I am looking forward to being part of that process.

Again, I am pleased to be here today, and I will try to answer your questions as best I can.

[The prepared statement of Oren G. Shaffer follows:]

PREPARED STATEMENT OF OREN G. SHAFFER, VICE CHAIRMAN AND CHIEF FINANCIAL OFFICER, QWEST COMMUNICATIONS INTERNATIONAL INC.

I am Oren G. Shaffer. I joined Qwest less than three months ago as the company's Vice Chairman and Chief Financial Officer, and I am pleased to be here with you today to discuss what we have done, and are doing, to address some of the issues that are of concern to me, to this Subcommittee and to the company as well as our external constituencies.

Let me begin by stating that Qwest faces significant challenges. Primary among these is saving the company—its 55,000 jobs and the communications service it provides to 25 million customers—and returning Qwest to the stability that our 50,000 plus retirees were part of building. To accomplish this, we must first regain the confidence of our employees, customers, investors and regulators. We must put the questions about our accounting behind us. In this regard, I have been analyzing these issues as expeditiously as possible.

As I will explain, we are well underway in an analysis of the company's accounting for IRU transactions and addressing other accounting issues. We have publicly announced that this process will result in a restatement of Qwest's financial statements; and we have disclosed the total amounts of IRU revenue and profits potentially at issue and the company's interim conclusions to date.

We, along with our new auditors KPMG, have initiated a review of the company's internal control systems and processes, combined with an overall risk assessment to identify those high-risk accounting areas requiring special attention. We are committed to making any changes that are appropriate in systems or in personnel to ensure that the kinds of accounting problems we are finding do not occur again.

At the same time, Qwest has made significant progress in improving the financial health of the company and refocusing management's attention on profitable and sustainable growth once we weather this difficult economic climate. One major step was entering into a definitive agreement for the sale of our directory publishing business, QwestDex, for more than \$7 billion. This transaction will be a key to our continuing effort to decrease the \$25 billion of debt on the company's balance sheet.

Qwest also has amended its \$3.4 billion credit facility to extend the maturity date to 2005 as well as to relax the financial covenants to obtain greater flexibility for the future. We also obtained in early September \$750 million of new funding. With our current commitments and obligations, once we have completed the sale of QwestDex we will have the liquidity to operate into 2005, which should allow us to implement the business plan that new management is establishing.

Central to our efforts is winning the confidence of our employees. Our new Chairman and CEO, Dick Notebaert, has the vision and experience to lead this cultural change by emphasizing open communication, doing what you believe is right and transparency in all areas of the work environment.

I am Committed To Concluding The Restatement of Qwest's Historical Financial Statements As Promptly As Possible, And I am Overseeing Appropriate Measures To Satisfy our Investors, Employees, Retirees, Customers and Other Constituents That The Accounting Problems We Are Identifying Do Not Recur.

The company decided not to re-engage Arthur Andersen and retained KPMG as its independent auditors shortly before I joined Qwest in July of this year. I and others have worked closely with KPMG to make certain that accounting issues of the past are identified, corrected and that the accounting is done properly in the future.

Qwest disclosed in its 2001 Form 10-K that the total revenue recognized from IRU transactions in the 2000 and 2001 financial statements was approximately \$1.48 billion, and that this amount might be subject to adjustment. Since I arrived in July, the company has made subsequent disclosures on July 28th, August 19th and September 22nd, and on each occasion Qwest told the public the status of the on-going accounting analysis and the probable magnitude of the restatement of Qwest's 2000 and 2001 financial statements.

We have significantly narrowed the focus of the remaining examination following our conclusion that two-thirds, approximately \$950 million, of the IRU revenue in 2000 and 2001 must be reversed. The remaining \$531 million of IRU revenue in this period remains under examination and we anticipate reaching further conclusions on these within a matter of weeks.

We are continuing to review these remaining IRU transactions and certain other accounting issues that we have identified. We are committed to concluding this process as promptly as possible, with the goal of a complete and accurate restatement of Qwest's financial statements so that our security holders and the market can rely with confidence on our financial statements. The restatement will not be complete until KPMG has reaudited certain historical financial statements.

**Qwest Is Committed To Strengthening Its Internal Controls And To Instilling a Culture Where Only The Best Practices Are Followed.**

With the help of our new auditors and other professional advisors, we are engaged in a major project to review and strengthen our internal control systems. As part of that process, our internal audit group is conducting a top-to-bottom risk assessment to identify those areas where we should focus our internal and external audit resources to protect against future errors.

I should emphasize the word "future" here. As we have announced, Qwest will not account for future IRU sales in a manner that gives rise to the accounting problems we are dealing with today in our historical financial statements. We will take the lessons learned from this examination of accounting issues and apply them to other areas to strengthen the company's financial reporting.

We are also working hard to foster an open environment where Qwest employees are encouraged to challenge assumptions, offer ideas, and raise issues, problems and concerns for consideration and resolution. At the same time, we are committed to expanding the overall level of experience in the finance and accounting organization. We expect that these actions will result in a climate where potential errors are more quickly identified and avoided, and, if found, quickly corrected and resolved.

We also understand that Qwest cannot build a new future without seeking to hold accountable those who were responsible for the problems in our past. In addition to cooperating fully with the investigative bodies that are principally responsible for holding individuals accountable for wrongdoing, Qwest is also conducting its own review; and our actions in this regard are ongoing.

**Qwest Is Committed To Work Cooperatively With, Congress, The SEC And Other Governmental Agencies.**

We have not undertaken these activities in a vacuum. Rather, as I suggested above, our efforts at restatement and reform have been accompanied by substantial efforts to cooperate with Congressional inquiries and with investigations initiated by the Securities and Exchange Commission and other governmental agencies. We have cooperated extensively with this Committee, voluntarily making our senior officers and board members available for more than 80 hours of interviews and testimony. We have also produced more than 250,000 pages of documents the Committee has requested. At the same time, we have had constructive discussions with the SEC's Office of Chief Accountant concerning some of the accounting issues we confront, and we are cooperating with the SEC's Division of Enforcement in the hope of resolving its pending investigation as promptly as possible.

There are two assurances I want to give this subcommittee today.

*First*, my only goal is to get it right. With the assistance of KPMG and our other professional advisors, I call them as I see them. If the accounting is wrong, we'll fix it, and we will make the appropriate disclosure.

*Second*, as part of this process, we will strengthen our internal control systems and establish an environment where only the best business practices are tolerated.

I also want to leave the subcommittee with a sense of what we have achieved in the short period Dick and I have been at Qwest. I believe that Qwest is increasingly well-positioned to achieve greater stability and profitability in the future, bringing with it the benefits of 55,000 jobs and the significant economic impact of a world class communications services provider. I look forward to being part of that process.

Again, I am pleased to be here today, and I will try to answer your questions as best I can.

Mr. GREENWOOD. Thank you.

Mr. Hellman, do you have an opening statement?

Mr. HELLMAN. Mr. Chairman, I have prepared an opening statement. In order to best utilize the committee's time, I will submit it for the record. I would just like to, as a way of introduction, perhaps read the opening paragraph. And the statement was submitted to the staff last night. I found a typo this morning. I would like to correct that for the record as well, but let me start by opening—the opening paragraph of it.



Mr. GREENWOOD. By all means. And your entire statement will be made a part of the record, including the typo correction.

Mr. HELLMAN. Thank you, Mr. Chairman.

#### TESTIMONY OF PETER S. HELLMAN

Mr. HELLMAN. My name is Peter Hellman. I am a member of the Board of Directors of Qwest Communications International. I have been Chairman of its audit committee for the past 4 months, since May 29, 2002. Prior to that time, I was a member of the audit committee since the merger of Qwest and US WEST on June 30, 2000. Prior to the merger, I was a member of the Board of US WEST and Chairman of its audit committee.

And with that, sir, the typo is number of audit committee meetings held in—there was over 35. In 2000, we met 11 times, and in 2002, we have already met 22 times, not the 14 that is cited in the statement.

[The prepared statement of Peter S. Hellman follows:]

#### PREPARED STATEMENT OF PETER S. HELLMAN, CHAIRMAN, AUDIT COMMITTEE, QWEST COMMUNICATIONS INTERNATIONAL, INC.

My name is Peter Hellman. I am a member of the Board of Directors of Qwest Communications International, Inc., and I have been Chairman of its Audit Committee for the past four months, since May 29, 2002. Prior to that time, I was a member of the Audit Committee since the merger of Qwest and US West on June 30, 2000. Prior to the merger, I was a member of the Board of US West and Chairman of its Audit Committee.

The purpose of the Audit Committee is to provide oversight in connection with the Company's financial reporting, internal controls, and accounting; to facilitate communication between management, the Board of Directors and the independent public accountants; and to oversee Qwest's relationship with those accountants. In performing our duties, we hold five regularly scheduled meetings each year, and special meetings on other occasions. Since the merger we have met more than thirty-five times. In 2001, we met eleven times; in 2002, we have already met fourteen times. As the Subcommittee is aware, we had frequent communication among the members of the Audit Committee and with management, independent auditors, and other members of the Board. We routinely meet with the independent auditors, internal auditors and finance management in private, executive sessions. We report our reviews and findings to the full Board formally at each subsequent Board meeting.

In order to evaluate the Company's accounting practices and policy, as a general matter, we relied heavily on our outside auditors, our internal auditors and our finance professionals (including our internal research personnel) to provide us with the generally accepted accounting guidance (GAAP) and the relevant facts by which to apply that guidance. Indeed, by the terms of its charter, the Committee is charged with carrying out these duties "in reliance on senior financial management and [Qwest's] independent public accountants."

Among the issues which we examined has been Qwest's accounting for IRUs and, specifically, whether our revenue recognition policies after the merger in 2000 and in 2001 for sales of IRUs were consistent with GAAP and in conformity with the guidance of our independent auditor. At a meeting of the Audit Committee held in February 2001, Qwest's independent auditor expressly informed us that the quality of our financial reporting for one-way cash sales of IRUs was acceptable and that the reporting for the Company's contemporaneous transactions (those involving purchases and sales that occurred in the same quarter and that the Company treated as nonmonetary exchanges) was "acceptable but aggressive."

The assessment by our independent auditor, at the same meeting, of our internal controls was that they were also acceptable. Qwest was deemed to have acceptable and effective controls for all of the areas evaluated by the auditor, including the adequacy of accounting resources.

Although our auditor specifically told us at that time that our IRU-related accounting was "acceptable," we directed management to increase disclosures in our quarterly statements concerning IRUs. We did this even though IRU sales represented approximately 5% of Company revenues for the year 2000. Indeed, each

quarter's disclosure was increased from that of the prior quarter for the remainder of the year. This increased level of disclosure has continued. In the Company's 2001 Form 10-K, the Company has disclosed the total revenue recognized from IRU transactions and that the Company may restate the total amount of IRU revenue.

On October 29, 2001, the Audit Committee was informed by our Chief Financial Officer that she had just learned of an e-mail apparently sent by Qwest to Cable & Wireless ("C&W") on December 29, 2000 that could be construed as a collateral agreement affecting a sale of an IRU by Qwest to C&W. Senior management also reported that they had determined that the Company was not obligated by the e-mail to act in any fashion that would compromise the Company's accounting. The Audit Committee considered whether the Company should restate its earnings to delete the revenue recognized in the fourth quarter of 2000 as a result of that transaction. After reviewing that accounting and the circumstances surrounding the transaction, and after consulting with our independent auditor, we concluded that the transaction was not improperly accounted for and was not material so as to require restatement since it constituted slightly more than one half of one percent of 2000 revenues. Given that determination, our independent auditor advised the Audit Committee that the transaction had been validly recognized as revenue as originally booked by the Company.

The Audit Committee was, nonetheless, concerned by the circumstances of this delayed recognition of information which could have affected the accounting of the transaction. Therefore, the Audit Committee did not end its inquiry. We directed the finance department to conduct an internal review to locate all other documents—regardless of their effect on the Company's accounting—that might have affected the terms of any IRU transaction. The Audit Committee, which inquired about this issue regularly, was assured that no other written "side letter" or written agreement was found that put the Company's revenue recognition into question.

Consistent with the scope of audit that we reviewed, a confirmation letter was sent to each customer to whom an IRU had been sold after October 1, 2000. The letter requested confirmation as to the terms of all contracts—and specifically inquired whether the customer was aware of any "side letter or oral agreement." Although Arthur Andersen received responses from many customers, including Global Crossing and Cable and Wireless, only one customer, Flag USA, asserted that it had rights outside our formal agreements.

Upon learning that Flag contended that Qwest had orally promised in or about June 2001 to permit the exchange of certain fiber optic capacity upon demand (in a transaction constituting approximately one-fifth of 1% of 2001 gross revenue), the Audit Committee instructed the Company in January 2002 to investigate all aspects of that transaction. The Committee was advised that every sales person involved in the transaction was individually interviewed. In February 2002, the Company presented to the Audit Committee the results of that review. The Committee was informed that no binding agreement existed and that no correction was necessary.

My concerns about the Company's practices were increased by comments provided to the Audit Committee in executive session with our internal auditor who was leaving the Company. He assured the Committee that our policies were appropriate and that management was formally providing correct instructions on compliance with them. In his opinion, however, the implementation could be better facilitated by senior management, starting with the CEO. I reported these comments and my own concerns to the chairman of the Audit Committee who concurred. The Audit Committee met with the Company's then-Chairman and Chief Executive Officer, Mr. Nacchio, in executive session to remind him of his obligation to set a proper and proactive "tone at the top." Our concern was not with any wrongdoing on his part—it was our purpose to ensure that the Company continued to meet revenue expectations without compromising accounting, legal or ethical standards. Additionally, there was the possibility that, in the pressure to meet quarterly targets, sales personnel may have failed to provide information about every transaction to the finance department. The Audit Committee urged that Mr. Nacchio take the opportunity to reinstill in his operations personnel an absolute and unwavering regard for full disclosure and transparency throughout the organization, as well as a complete regard for accounting standards and the Company's code of conduct.

In mid-February 2002, the Company was served with a subpoena to provide information to the Securities and Exchange Commission, which was then conducting an investigation into Global Crossing. The Company retained outside counsel and began another review of all of its IRU transactions. To be sure, while that further analysis has taken several months, it has occurred during a period of great change. The Company has since hired a new management team, as well as engaged a new independent auditor. Moreover, outside counsel have themselves engaged additional new accounting experts.

Since the merger, the Company entered into 91 IRU transactions. It is important to note the pertinent accounting policies have been in transition, and with respect to which the views of regulators were evolving. Indeed, the White Paper written by Arthur Andersen to provide guidance on the accounting for IRU transactions was revised numerous times, most recently in early 2002. It is in this context that the process of reviewing nearly all of the Company's sales of IRUs has been conducted and that the Audit Committee has reviewed and evaluated the Company's accounting standards, policies and practices. We have conducted this review in a conscientious and methodical fashion with appropriate disclosure of our progress.

To conclude, the Audit Committee specifically probed the method of accounting by Qwest for sales of IRUs. It repeatedly sought and then relied upon the advice of its independent auditor and its finance management in reviewing and approving those accounting policies and their application. In the process of obtaining that advice, the Audit Committee regularly asked questions of management and pressed both management and the auditors to make sure that all accounting methodology was proper and that the Company had full compliance. At the same time, the Audit Committee insisted on increased public disclosure regarding IRU transactions beginning in early 2001. As it learned information that could potentially implicate the Company's financial statements, it supervised an aggressive investigation and expanded the appropriate disclosures. That investigation continues to this day.

What can be learned? We were dealing with a new business based on new technology. The Audit Committee sought from its independent auditor an explanation of how its opinions compared with opinions of the FASB and the SEC. We were told that traditional accounting wasn't keeping pace. The emerging issues task force and the SEC were struggling to adapt existing accounting to this technology. The provisions of Sarbanes-Oxley will also establish best practices as the standard.

Again, I wish to express my thanks to the Chairman and members of the Subcommittee for inviting the submission of this statement.

Mr. GREENWOOD. So it is 22, not 14.

Mr. HELLMAN. Correct, sir.

Mr. GREENWOOD. Ah ha.

Thank you, sir. Appreciate that.

The Chair is going to recognize the chairman of the full committee, Mr. Tauzin, to question first, insofar as he has to chair a very important energy conference very shortly. The gentleman is recognized for 10 minutes.

Chairman TAUZIN. Thank you, Mr. Chairman.

Mr. Nacchio, who is Russell Knowles?

Mr. NACCHIO. Congressman Tauzin, Russell Knowles was the previous—I should say previous from when I left, but previous head of our internal auditing group.

Chairman TAUZIN. And on Tab 78, if you will go to the book, we have a memo from Mr. Hellman to Tom Stevens. And I want to turn to Mr. Hellman first.

We read this memo into the record last week, and it basically starts out by saying, "We did have a good conversation with Russell Knowles, the internal auditor. And while he is not leaving because of anything at Qwest directly, a factor in his decision is the tone at the top and how that makes a job in the corporate more difficult, not that Joe"—I assume he is talking about you, Mr. Nacchio—"he is not saying the right things, make the numbers and do it the right way, but the line people, including the divisional CFOs, are only hearing 'make numbers.' In my opinion"—this is you, Mr. Hellman, stating this, "there are well-known consequences for not making the numbers, but no clear consequences for cutting corners."

Would you elaborate just a bit on why you wrote that and what it means?

Mr. HELLMAN. Yes, I will, Mr. Chairman. And if I could put it in a context, it was the fall of last year. Business conditions were certainly getting more difficult. We had just had an audit committee meeting, and this was the—this was a report back to the audit committee chairman of the executive session of that meeting, and the chair of the committee was able to attend by telephone the audit committee but not the executive portion. So I am reporting back the part he didn't hear.

Chairman TAUZIN. Yes, I understand.

Mr. HELLMAN. And in that meeting, as part of the closing discussion, inquiry with our financial management and our independent accounts, a transaction was discussed that was entered into in the prior quarter, in September 2001, a transaction with a company called CalPoint.

Chairman TAUZIN. Okay.

Mr. HELLMAN. Now that transaction was accounted correctly, but some documents that made that determination more easily, that made it more efficient for the finance staff to review, weren't in the original set of documents. They had to ask for them and get them, if you will.

And so with the CalPoint transaction, and then—and I will discuss Mr. Knowles' comments, he was leaving the company. I am of the belief that senior financial management who leave the company should have exit interviews, and, if they are senior enough, should have exit interviews with the audit committee. And so this was, if you will, such a meeting.

Chairman TAUZIN. Yes.

Mr. HELLMAN. I had known Mr. Knowles for over 3 years, because he was the internal auditor of US West as well. And as I said, I led the executive committee discussion with Mr. Knowles.

Chairman TAUZIN. What do you mean by saying, "In my opinion, there are well-known consequences for not making the numbers," what are the well-known consequences?

Mr. HELLMAN. Well, I believe that people clearly had their compensation altered, because they were either on a commission system or on a bonus system. If they didn't produce financial results, they were not promoted, and—

Chairman TAUZIN. Was anybody fired?

Mr. HELLMAN. I did not know of that. That clearly would be a possibility, if one didn't perform.

Chairman TAUZIN. But you make the point that there were no clear consequences for cutting the corners—in other words, making the numbers any way you can.

Mr. HELLMAN. Yes. And let me put that into context.

Chairman TAUZIN. Yes. Will you, please.

Mr. HELLMAN. As business—in my experience, as business gets more difficult, and management is pushing for results, it is a matter of balance. So if you push for results, I think it is also important to reemphasize, if you will, the way in which the company performs, the way in which those results would be developed and delivered. So if you are pushing for results, you ought to be reiterating, and we do it the right way.

Chairman TAUZIN. Yes.

Mr. HELLMAN. To be going on the proactive, if you will, Mr. Chairman.

Chairman TAUZIN. Right. And, in fact, you go on to say in the memo, "Finance people in the business unit were obscuring the appropriate facts, both from AA and Robin, to whom they directly reported. As far as I am concerned—can determine, there were no consequences for the action." Who was obscuring the facts, and what facts were they obscuring?

Mr. HELLMAN. I don't have that information, Mr. Chairman. The finance—

Chairman TAUZIN. Well, why would you write that if you didn't know that?

Mr. HELLMAN. I don't know the particular people's names. I was told at the time that those documents weren't readily available. I was told at the time that the finance department had to go out of its way to get those documents. That is what I was referring to.

Chairman TAUZIN. But you are on the audit committee. Why wouldn't you know who was obscuring the facts? This is pretty important stuff, isn't it?

Mr. HELLMAN. Well—

Chairman TAUZIN. Did you look into it and try to find out how was obscuring the facts from the standpoint of there would be no consequences? When I read your memo, it sounds like you are basically saying somebody did something inappropriate, and there are no consequences for doing it inappropriately. And I am just asking: as the audit committee, wouldn't you want to know who is doing inappropriate things and obscuring facts and take them into account for them?

Mr. HELLMAN. I think, first, the audit committee relies on management to manage its employees, until such time as that inquiry needs to be elevated. Since the—

Chairman TAUZIN. Well, did anybody else at the table know who these people were who were obscuring the facts in the finance—the finance people, whoever they were? Anybody want to volunteer? Well, you just don't know who those people were?

Mr. HELLMAN. Sir, since January, January 2002, we have had an active investigation. We have hired an independent counsel, both for the company and for the board. The priority of that review, that investigation, has been to determine the appropriate accounting.

Chairman TAUZIN. Well—

Mr. HELLMAN. And it—oh, sorry.

Chairman TAUZIN. [continuing] you mentioned Mr. Knowles. And, Mr. Nacchio, I want to come back to you at this point. We don't have Mr. Knowles before us. We tried to bring him here. We just interviewed him on Saturday. But when we did interview him, he pointed out to us that he, according to him at least, he met with Joe Nacchio to discuss his concerns regarding Qwest's corporate environment and overly aggressive accounting. Do you recall such a meeting, Mr. Nacchio?

Mr. NACCHIO. Congressman Tauzin, I met with Russell Knowles each quarter as our internal auditor.

Chairman TAUZIN. Yes.

Mr. NACCHIO. I do not remember that coming up. Russell came into those meetings with a long list of items. He had open access

to me in between those meetings. I also just want to note, I interviewed Russell on his exit from the company also. And he did not bring up these matters to me.

Chairman TAUZIN. He tells us that you advised him that you did not advocate anyone doing anything unethical or illegal in the company, and you told him you would talk to his direct reports about these concerns. You don't recall that?

Mr. NACCHIO. I don't recall that. But had he brought it up, I would have said that, and I would have done that. But I don't specifically recall that.

Chairman TAUZIN. In fact, you did have a meeting, didn't you, with the leaders of the business units regarding ethics and integrity?

Mr. NACCHIO. We spoke of that I would say systematically if not regularly. I know we had an annual review of the Code of Conduct, and I actually believe in the period since the takeover of US WEST we did it four times in those 2 years, because of it being a new company. But I am not refuting that Mr. Knowles may have said that. I don't remember. I did meet with him quarterly. He had open access. And I did meet with him when he was choosing to leave the company. I actually tried to encourage him to stay.

Chairman TAUZIN. Well, he said you gave him the right answer. He said you didn't encourage anybody, and you would have a meeting with the people, and you did end up having a meeting.

Mr. NACCHIO. That is fine, but I don't remember that.

Chairman TAUZIN. You don't remember that.

Mr. NACCHIO. Right.

Chairman TAUZIN. There is also, I understand, a difference of opinion as to what is remembered or what happened between you and Ms. Szeliga. Last week, she told us that, in fact, looking at a memo in Tab 64, if you will follow along with me—

Mr. NACCHIO. 64?

Chairman TAUZIN. Yes, 64, to Qwest Communications International Incorporated, Audit Committee of the Board of Directors.

Mr. NACCHIO. 64. I have not—

Chairman TAUZIN. There are two—

Mr. NACCHIO. Oh, I am sorry.

Chairman TAUZIN. 64. Okay. If you will look at that second document, you will see that in it is—it contains the following report. Mr. Szeliga also informed the committee that she had discussed the matter with J.P. Nacchio, Chairman and Chief Executive Officer of the corporation.

The matter they are talking about is the size of the transactions and the accounting—financial reporting of those transactions, her concerns about the side agreements and what might be going on. She testified, if you recall, last week that she had become concerned about these side agreements and these oral assurances, and that this made it very difficult for them—for her and others to deal with the accountants. They said, "You can't do that. You can't have these side agreements. You can't have these oral agreements and still account for these transactions the way you have."

And she claims at least here that she discussed this matter with you. What have you to say about that?

Mr. NACCHIO. Ms. Szeliga was my Chief Financial Officer—

Chairman TAUZIN. Yes.

Mr. NACCHIO. [continuing] as you know. Her office was next to mine. We met daily, and we met, I would say, formally at times when we had a monthly review of results, but we also met frequently on an informal basis. She had open access. I know she has said this. I have seen this memo presented, I think, on the September 19 meeting.

Chairman TAUZIN. Yes.

Mr. NACCHIO. She may have said it to me. I do know she did the right things and did the things I would have told her to do, if we had that conversation. If she had brought that to my attention, I would have said to her, "Go to our general counsel, investigate the matter. If I can help, have me involved. Bring it to the audit committee, so we have an independent assessment. And make me a recommendation."

Now, she subsequently did all of that. The recommendation I got back—I don't remember it coming from Ms. Szeliga. I remember in a February e-mail that I saw—I believe this was referencing a C&W transaction, and I know this in the sense of having been prepared on the September 19 meeting, that I saw an e-mail that I had passed to my general counsel to investigate, and he came back to me at some subsequent time and said, "That matter has been taken care of."

Now I get a lot of complaints daily from lots of customers, small customers in the local telephone service to multinationals. I generally pass them to the right people. I ask for follow up. But I generally don't quiz them when they tell me it has been solved.

Chairman TAUZIN. Now, you testified that you did interview Mr. Knowles upon his leaving the company.

Mr. NACCHIO. Yes.

Chairman TAUZIN. What did he tell you when you interviewed him were his reasons for leaving?

Mr. NACCHIO. Two principal reasons. He had worked for US WEST I think for 18 years. I don't know the exact amount of time. He had a good opportunity, I think it was in Minneapolis, Minnesota, and I was of some impression there were some family circumstances that also were influencing his decision to move to Minnesota.

Chairman TAUZIN. Now, again, I don't have him here in front of us, so you can both discuss this, and I apologize for that. We did try to get him. But in our interview with him Saturday, he told us that he left because it was becoming too difficult to navigate within the acceptable levels of risk in the current Qwest corporate environment, and that good business people were being pushed to do unethical things for the sake of meeting their goals. He mentioned none of this to you?

Mr. NACCHIO. Congressman Tauzin, I only wish he had. He did not mention it to me. Had he mentioned it to me, I would have taken appropriate action.

Chairman TAUZIN. And, Mr. Hellman, did Mr. Knowles ever tell you anything like that?

Mr. HELLMAN. No, sir. I think my I guess it is an e-mail to Tom Stevens was a fair recitation of his comments to me, and you can tell it was sent the next day, so it would have been vivid in my

memory. Clearly, he discussed concerns about the ability of the internal audit function to have the appropriate priority among line management. I think that would be how he stated it, not——

Chairman TAUZIN. Are you——

Mr. HELLMAN. [continuing] clearly the intensity of his comments to you last week, or the committee last week.

Chairman TAUZIN. You were at the audit committee of the board of directors meeting that is referred to in Tab 64 wherein Ms. Szeliga claims that she informed the committee that she had discussed these problems with the chairman, Joe Nacchio. Do you recall that meeting, first of all?

Mr. HELLMAN. Yes, I do. I attended by phone. It was a telephonic——

Chairman TAUZIN. Do you recall Ms. Szeliga making that comment?

Mr. HELLMAN. I do recall that.

Chairman TAUZIN. So you confirm that she at least told the committee that she had reported these problems to the chairman, Joe Nacchio?

Mr. HELLMAN. I do—sorry, I missed your question exactly, but that is what she said. The minutes of the meeting are correct.

Chairman TAUZIN. That is essentially what I was trying to get to.

Mr. Nacchio, you simply don't recall whether she did talk to you?

Mr. NACCHIO. She may have. I don't recall any specific discussion with her about that item.

Chairman TAUZIN. What she was concerned about is pretty serious stuff.

Mr. NACCHIO. Absolutely.

Chairman TAUZIN. That these transactions had been accounted for in a way that the accountants could qualify some of these deals as income in the corporation. And yet these side agreements, these perhaps side letters, were they known to the accountants, would force a restatement of income, or would force the reevaluation of how that accounting had occurred. That is pretty serious business, wasn't it, for you?

Mr. NACCHIO. Yes, it would be.

Chairman TAUZIN. So if she had told you that, why wouldn't you remember that?

Mr. NACCHIO. Again, Congressman, I believe this, as I understand it, was a response to, did I know about a very specific transaction. When I appointed Ms. Szeliga in the spring of 2001——

Chairman TAUZIN. Yes.

Mr. NACCHIO. [continuing] she had been with Qwest, had been Senior Financial—Vice President of Financial Planning, knew the Qwest side of the business, did not know the larger part of the business we just acquired.

Chairman TAUZIN. Yes.

Mr. NACCHIO. I sat with her and said, "Robin, one of the things you have to do, this is just good plain old advice, is we have got a big part of the business you are not familiar with. Concentrate on controls as one of your early things."

And as any new executive, she had opportunities where she came to me for coaching about relationships with other executives. And



part of what you do as a CEO is know how to try to get them through that without operating in a heavy-handed way.

So the notion that she had problems with controls was something we had discussed earlier. I am answering specifically about as I understand this to be a transaction related to a side letter on a specific transaction. Matter of fact, she put in very specific policies in her tenure—early tenure as CFO about all types of accounting activities and disclosure to her financial staff, which was placed in each business unit.

Chairman TAUZIN. Now, there was another audit committee meeting on December 5, Mr. Hellman. Do you remember that meeting?

Mr. HELLMAN. Yes, I do, sir.

Chairman TAUZIN. Ms. Szeliga gave us some information about it, basically that she had been asked to leave, and that audit committee members had some tough words after that. Do you recall that meeting, and can you tell us about it?

Mr. HELLMAN. Yes, I recall the meeting. It was a meeting in Denver. I actually attended by phone, so I can't tell you everything about it. It was limited by being on the phone, but I—I can tell you about it.

Chairman TAUZIN. Please do.

Mr. HELLMAN. The meeting was a regularly scheduled board meeting, followed by an executive session, and the executive session we invited Joe Nacchio to attend that portion of the meeting.

Chairman TAUZIN. And what occurred in this meeting? Wasn't there a discussion regarding the current accounting issues at that meeting?

Mr. HELLMAN. There was, sir. Do you have in the record the minutes that I could refer to?

Chairman TAUZIN. I don't think we do. We can make a copy and give you a copy.

Mr. HELLMAN. I mean, so——

Chairman TAUZIN. Let us do that.

Mr. HELLMAN. My recollection, sir, is that——

Chairman TAUZIN. Let us do that, make a copy and give it to——

Mr. GREENWOOD. I believe that document, Mr. Hellman, is in the stack right in front of you.

Mr. HELLMAN. This here? I may have it here, Mr. Chairman.

Chairman TAUZIN. I want to make sure you have it before I interview you.

Mr. HELLMAN. So I do.

Chairman TAUZIN. No, that is fair. And I—if you don't have it, I will move on and come back to it.

Mr. HELLMAN. I will quickly go through this.

Chairman TAUZIN. While you are looking at it, Mr. Nacchio, these—just the last two areas I want to cover, Mr. Chairman.

You have now apparently—the company has now restated income to the tune of \$950 million. But we understand there is another \$531 million of revenue previously recognized from the sales of optical capacity. Perhaps, Mr. Shaffer, you can help us with this one. What is all that about? What is this extra \$531 million that is in question?

Mr. SHAFFER. Congressman, the \$531 million amount concerns a group of IRU transactions which we are still studying and reviewing. They are the remainder, if you will, of the entire universe of IRU transactions. As you are aware, we have written off already \$950 million of those transactions.

Chairman TAUZIN. And are they likely to get restated as well?

Mr. SHAFFER. I think there is a high degree of probability that they are going to be adjusted. At this particular moment, I just don't have the transaction-by-transaction review to give you the exact answer, but I believe they will be adjusted.

Chairman TAUZIN. All right. Now, Mr. Hellman, have you acquainted—

Mr. HELLMAN. Yes, I have, sir.

Chairman TAUZIN. [continuing] yourself a little bit with the document? And can you tell us what all happened at that meeting and whether or not the meeting involved a discussion of the current accounting issues that were before the board at that time?

Mr. HELLMAN. Yes. Actually, it was an audit committee meeting that I think we are referencing.

Chairman TAUZIN. Yes.

Mr. HELLMAN. And there were several accounting issues we addressed. As you will see on page 1 toward the bottom, the issue on goodwill, this is just going into the new year where FAS 142 is being adopted. We instructed the staff to begin the process of evaluation of goodwill.

Chairman TAUZIN. Was there a discussion of the tone at the top?

Mr. HELLMAN. Sir, that was in the executive session where that was discussed. But one point I would like to make before we get there is Ms. Szeliga did come back to the committee, as we instructed in the October meeting—

Chairman TAUZIN. Yes.

Mr. HELLMAN. [continuing] to say that she had had a thorough review of all processes and documentation and found no other side agreement or ancillary or collateral agreement.

Chairman TAUZIN. Okay. But tell us about what happened in the executive session.

Mr. HELLMAN. Fine, sir. In the executive session, our committee chair Tom Stevens spoke to Mr. Nacchio about the importance in this environment of re-instilling, of communicating broadly in a proactive fashion, the need within the organization to maintain the highest level of legal and ethical standards.

Chairman TAUZIN. Why did that happen?

Mr. HELLMAN. I think it was—

Chairman TAUZIN. Was there a concern in the audit committee that that was not occurring in the corporation?

Mr. HELLMAN. I think it was a followup to my memo of—or my e-mail of October 25. And so what our chairman was doing was exactly what I asked him to—to speak to the CEO. He chose to do it in an executive session of the audit committee.

Chairman TAUZIN. I understand.

Mr. HELLMAN. But to establish the same tone at the top, sir.

Chairman TAUZIN. And, Mr. Nacchio, would you want to comment about that meeting?

Mr. NACCHIO. Yes, I would be happy to. I was asked in—my recollection it was either the end of the audit committee or the beginning of the board meeting, but in either case there were multiple directors there. That is not something I am challenging.

Mr. Tom Stevens—Mr. Stevens had a document that was a document I believe that was recently issued from some New York law firm about, given all of the accounting issues corporate America was facing, what they considered now to be the new gold standard. And Tom led the discussion that basically said, “I think we ought to adopt these gold standard procedures.” And I said, “Absolutely.” I mean, why not?

What should we do differently? There were no proposals made. There was no suggestions of something being done differently in terms of line management. And it was a general, and I would say, somewhat undirected discussion about the importance of the heightened scrutiny that corporate America was under, and how we should strive for the highest ethical standards, and, you know—

Chairman TAUZIN. Were you offended that they were concerned about the tone at the top?

Mr. NACCHIO. No. Congressman, I am not offended when my board is trying to be constructive. What does annoy me is when e-mails get passed behind my back and I don't see them, and I, therefore, don't know. I can't, through magic, figure out what is on people's minds if they don't communicate.

Chairman TAUZIN. What kind of instructions did you give them following that executive session?

Mr. NACCHIO. I was given no instructions for following—

Chairman TAUZIN. Did you give—you gave no instructions?

Mr. NACCHIO. Yes. I asked them to give me or to help me with anything that they were seeing, because this was my, so to speak, independent committee also, even though I wasn't on it, who had different visibility. And I think, quite frankly, a conversation that someone might not want to have with me—and I will just refer back to the Mr. Knowles conversation, not suggesting it happened—they might feel less intimidated not having it with the CEO and having it with an independent group, which is a good way to facilitate communication. That is part of why corporate governance generally—

Chairman TAUZIN. Because he was leaving. I mean, why wouldn't he tell you this when he is on the way out?

Mr. NACCHIO. I am using it as an example. Part of the reason we have our CFO, at least in the companies I ran, report into the audit committee independent of the CEO is so there is this independence.

Chairman TAUZIN. I understand that. But the guy was leaving your company. Wouldn't he be honest with you on the way out?

Mr. NACCHIO. I would hope he would, and there was no reason not to be. But, again, I can't put words in people's minds.

Chairman TAUZIN. I understand.

Mr. Hellman, is that your recollection, too, that Mr. Nacchio gave instructions to straighten things out?

Mr. HELLMAN. I don't know what actions he took after the meeting, sir. I mean, I believe that we found him to be professional. We

found him to understand our concerns and to say that he would take the appropriate actions. And I believe that he did so, but I don't have first-hand knowledge of that.

Chairman TAUZIN. Is your recollection the same as his about the discussion of this gold standard accounting, this new accounting gold standard that you should follow? Is that accurate?

Mr. HELLMAN. I don't recall that portion of the meeting. The portion that I recall was this establishment of a tone, being proactive, talking to line management about be sure we do it the right way.

Chairman TAUZIN. Thank you very much, Mr. Chairman.

Mr. GREENWOOD. The Chair thanks the gentleman and recognizes the gentlelady from Colorado, Ms. DeGette, for 10 minutes.

Ms. DEGETTE. Thank you, Mr. Chairman.

Now, Mr. Nacchio, my records show that between 1999 and 2001 you sold about \$235 million worth of Qwest stock. Is that accurate?

Mr. NACCHIO. Approximately right.

Ms. DEGETTE. Okay. And between 1997 and 2001, Qwest executives sold about \$640 million worth of stocks.

Mr. NACCHIO. I don't know if that is—I mean, it could be.

Ms. DEGETTE. You wouldn't disagree with that.

Mr. NACCHIO. I have no reason to agree or disagree. There are lots of executives who came and left, and I think, as you know, our founder sold a lot of stock, and I think that is not in that number.

Ms. DEGETTE. Okay. Now, when you were the CEO of Qwest, were you aware that the company was counting revenue from the employee pension fund as operating revenue on the books?

Mr. NACCHIO. When I was the CEO of Qwest, post the merger with US WEST, because that is where you had the over—that is where you had an accounting I guess—

Ms. DEGETTE. Okay. Post the merger—

Mr. NACCHIO. That was the pension fund that would have generated, under the accounting rules, surpluses which had to be counted as operating income. That was something we inherited with the acquisition of US WEST.

Ms. DEGETTE. So someone told you you were required to count the revenue from the employee pension fund as operating revenue?

Mr. NACCHIO. I am aware of the issue, because at the time of the merger we were picking up a pension fund that we were inheriting from the old—the US WEST company.

Ms. DEGETTE. Gotcha.

Mr. NACCHIO. I knew—and it was—this has been written about in the press for years about pension fund accounting and people doing things. And I knew of the general area. No one came to me specifically. The pension fund is managed by an independent group of executives.

Ms. DEGETTE. Right.

Mr. NACCHIO. And so I know of the general topic. I am just trying to answer the question. I know of the general topic, but no one came to me, if your question was, to get guidance on the pension fund?

Ms. DEGETTE. No. I asked you—

Mr. NACCHIO. Oh.

Ms. DEGETTE. [continuing] actually, a very simple question, which was, were you aware that the company was counting rev-

enue from the employee pension fund as operating revenue on the books?

Mr. NACCHIO. As operating revenue?

Ms. DEGETTE. Right.

Mr. NACCHIO. No, I am not aware of that.

Ms. DEGETTE. Do you deny that that is true?

Mr. NACCHIO. I have no reason to know—

Ms. DEGETTE. Mr. Mohebbi, do you know whether that is true?

Mr. MOHEBBI. Congresswoman, I do not.

Ms. DEGETTE. Anyone else? Mr. Hellman, do you know whether that is true?

Mr. HELLMAN. Yes, it is appropriate. In the footnotes of our annual report, both US WEST and Qwest, has shown as income on its income statement a portion of the overfunded position of the pension fund.

Ms. DEGETTE. As operating income.

Mr. HELLMAN. I can't recall which part—how far down the income statement—clearly on the income statement, clearly in the footnotes. I don't know if it is operating or below operating income level.

Ms. DEGETTE. Because, obviously, if it is a pension fund, you wouldn't be able to use those funds as operating income, would you?

Mr. HELLMAN. It is income recognition, Madam.

Ms. DEGETTE. Right.

Mr. HELLMAN. It is not movement of cash.

Ms. DEGETTE. Right. Exactly.

And, Mr. Nacchio, I want to ask you, after you left Qwest, were you retained as a consultant by Qwest?

Mr. NACCHIO. Yes, I was retained as a consultant for Qwest for 2 years.

Ms. DEGETTE. And when did your contract begin?

Mr. NACCHIO. September 17, 2002.

Ms. DEGETTE. So you will be retained as a consultant for roughly 2 years.

Mr. NACCHIO. September 16, 2004.

Ms. DEGETTE. Great. And what is—how much do you receive in compensation as a consultant?

Mr. NACCHIO. \$1.5 million annually.

Ms. DEGETTE. And let me also ask you, please describe the terms of your severance package with Qwest to us.

Mr. NACCHIO. My severance package was defined by my employment agreement. It is basically two times base salary plus targeted bonus. There was a—

Ms. DEGETTE. For what period of time?

Mr. NACCHIO. For—well, it is paid at the time you leave the company. It is paid—it was paid about a month or 6 weeks later.

Ms. DEGETTE. And how much was that that you received?

Mr. NACCHIO. I am just trying to get you the numbers. It is two times base plus bonus, which I think is \$10.5 million. And then there was a partial year accrued bonus of \$1.2 million, or something. So it is somewhere around \$12 million in total.

Ms. DEGETTE. Okay. Now, Mr. Nacchio, unfortunately, you weren't in the room when Ms. Smith testified. And Ms. Smith is——

Mr. NACCHIO. Smith?

Ms. DEGETTE. I am sorry?

Mr. NACCHIO. Ms. Smith?

Ms. DEGETTE. Yes.

Mr. NACCHIO. Okay.

Ms. DEGETTE. She is one of your former employees, and she is also my constituent. And what she said when she was in this room was that she worked for US WEST, and then for Qwest, for a period of 20 years. I believe she was a technical writer is what her job was.

And she was laid off just like a whole bunch of other people from Qwest, 27,000 employees in fact during your tenure at Qwest, and she lost \$230,000 from her retirement savings. Now, she could have sold the stock that she contributed to the plan but not the stock contributed by Qwest.

And what she testified is everybody at Qwest who had been there when your team came on, when Qwest took over, they felt like a family, and they felt like they were, you know, as Mr. Mohebbi said in his written opening statement, the local phone company. So they thought that they would be made whole.

And now here they all are, 27,000 people, mostly in Denver, my district, they don't have jobs. And I don't know if you heard the last panel.

Mr. NACCHIO. No, I did not.

Ms. DEGETTE. Okay. You didn't hear the last panel. But Mr. Winnick came in and he testified, and he apologized to the employees for what had happened to their pensions and to their jobs.

Ms. Smith told me she has two girls. She wants to send them to college. And they are in their teens now. She doesn't know how that is going to happen, because that \$230,000, that was for their college and for her retirement.

And so I asked Mr. Winnick, you know, it is one thing to apologize to your employees, which is, frankly, not even anything I have heard from you here today—an apology to these 27,000 people.

Mr. NACCHIO. I think my opening statement covered that, Congresswoman.

Ms. DEGETTE. Okay. Well, you know what? The people who are watching this on TV in Denver did not see your written statement.

Mr. NACCHIO. I read it.

Ms. DEGETTE. And the thing is, I said to Mr. Winnick, I said, "Mr. Winnick, what are you going to do besides apologize?" And Mr. Winnick said, "You know what? I am going to take—I talked about it with my wife, and I am going to take \$25 million from my pocket and put it back into the pension fund." I want to know, is there anything you plan to do to make the pensioners who lost their jobs and the employees who lost their jobs while you were the CEO whole?

Mr. NACCHIO. Can I respond to several things that you said in that statement, or——

Ms. DEGETTE. Sure.

Mr. NACCHIO. [continuing] do you want just a short answer? I mean, seriously, because I did not lay off 27,000 people. When we merged the two companies, it was 72,000 employees. When I left Qwest, the number was about 60,000. It would be 12.

Second, when I—

Ms. DEGETTE. So only 12,000 lost their jobs.

Mr. NACCHIO. Yes. Last week alone, SBC announced 11,000 employees being laid off. Every Bell operating company in this country has laid off employees because of the—I won't blame it on the economy. I will say the economy, the industry structure, the substitution by wireless, by cable. Whatever the fact is, every company that used to be a Bell operating company is laying off employees, literally as we speak.

The second thing, about that 401(k) plan, we inherited a 401(k) plan from US WEST where employees of US WEST, prior to the merger, were locked up on the company contribution. Employees who came from Qwest were not locked up. Employees who joined the company after the merger were not locked up.

When that issue was brought to my attention in early 2002, I went to the board of directors and changed that provision. So that was something we inherited that I was not aware of, and I feel bad I didn't know about it earlier.

Now, in terms of Mr. Winnick's proposal, as I understand what you just told me, I have not heard about it. I have no reflection on it. Mr. Winnick—

Ms. DEGETTE. I think he just came up with it today.

Mr. NACCHIO. Mr. Winnick's company also went bankrupt. Qwest is not a bankrupt company. It has a pension plan, and there are lots of reasons why the telecommunications industry is on hard times.

Ms. DEGETTE. So I guess your answer to Ms. Smith and to other people is: tough luck.

Mr. NACCHIO. No, that isn't what I just said.

Ms. DEGETTE. Well, I mean, that is the way they are going to think of it.

Mr. Shaffer, let me ask you, because this is a real concern of mine, and I think it is a real concern of Mr. Notebaert's as well. What does the new management of Qwest intend to do about these folks who have been laid off, who have lost their retirement, who are really looking to the new leadership to do something?

Mr. SHAFFER. Congresswoman, we are right now paying most of our attention—in fact, I would say all of our attention—to, in fact, saving the current company and its 55,000 employees and continuing to not, as Mr. Nacchio said, go into bankruptcy in which not only do we lose the benefits for all of the employees, but the 55,000 employees, the pension benefits for the 50,000 employees which do receive benefits from the company.

So we are concentrating now on improving the operations of Qwest, creating value in Qwest, continuing the company as a good employer, as a good contributor to the economy, and, quite frankly, have not thought about what has happened in the past or trying to remedy that.

Ms. DEGETTE. Well, Mr. Shaffer, I know you all are trying to be—you have come in and inherited a mess. You are trying to be

good corporate citizens. I would hope that you would consider these folks who are sitting out there with nothing as you work through your plan.

Mr. SHAFFER. If I could just respond. I would go further and say that we will be good corporate citizens. We do have a different approach to not only our communications internally but also externally with our constituencies around the company and in different states. And this is something which you correctly point out that Dick Notebaert has stated his opinions very clearly.

And, you know, if it would do anything, I might read you a letter here from Morty Barr, who is the president of the CWA. They have 700,000 members in their union, mostly in the telecommunications area. But this is an unsolicited letter from Morty. Wall Street, along with—

Ms. DEGETTE. To save time—

Mr. SHAFFER. —Qwest customers and—

Ms. DEGETTE. Sir?

Mr. SHAFFER. [continuing] business partners, can have full confidence—

Ms. DEGETTE. Sir?

Mr. SHAFFER. [continuing] in Dick Notebaert's commitment to setting the highest ethical standards in his experienced and executive ability.

Ms. DEGETTE. Mr. Shaffer? Excuse me. I have limited time. If I can just ask unanimous consent, we can include that letter in the record.

Mr. SHAFFER. Actually, that is fine. I would love to give it to you, because I think it is a great letter, and from a very, very large constituency.

Ms. DEGETTE. Thank you.

Mr. SHAFFER. You are welcome.

Ms. DEGETTE. I would just like to follow up briefly on the chairman's questions, if I may, about the audit committee meetings in the fall and into the winter of 2001.

Mr. Shaffer, I believe that the company has restated, as of September 22 of this year, about \$900 million. Is that correct?

Mr. SHAFFER. \$950 million.

Ms. DEGETTE. And how much of that was IRUs?

Mr. SHAFFER. The entire amount was IRU.

Ms. DEGETTE. The entire amount. And you are looking at potentially restating around \$500 million more?

Mr. SHAFFER. It is a different category of IRU, but we are reviewing that, and we are viewing it on a case-by-case basis.

Ms. DEGETTE. Okay. Now, Mr. Hellman, going back to Chairman Tauzin's questions, I know that the board was concerned about the accounting treatment of a lot of these transactions clear back—I believe all the way back to 2000, 2001. Would that be accurate to state?

Mr. HELLMAN. I joined the audit committee, in fact the board of Qwest, in mid-year 2000. I have been told that in the first audit committee meeting there was a discussion on IRUs. To be candid, I don't recall that October 2000 meeting. It is part of material that has been shown to me.



Ms. DEGETTE. Was the board aware of the IRUs at that time, in 2000?

Mr. HELLMAN. Oh, clearly. Yes, sir—I mean, ma'am.

Ms. DEGETTE. That is okay.

And if you will take a look at Tab 63 in your notebook, the first part of that is the audit committee minutes, which you talked about with the chairman. And then attached to that is a presentation that Arthur Andersen did to the audit committee October 4, 2000. Were you on the audit committee at that time?

Mr. HELLMAN. Yes, I was.

Ms. DEGETTE. Okay. And in that memo that Arthur Andersen presented, they talked to you about these IRUs and about the SEC investigating them, that you didn't—SEC emphasis on no future benefit to the company and no future revenue generation from the activity. SEC vigorously challenging sales treatment. So you were aware of these problems clear back in 2000, right?

Mr. HELLMAN. I was at the time. I don't recall this meeting, but clearly the IRUs were addressed at almost every meeting of the audit committee. And we met 35 times.

Ms. DEGETTE. And was Mr. Nacchio present at those meetings?

Mr. HELLMAN. As a common practice, no.

Ms. DEGETTE. Okay. Do you know if Mr. Nacchio was aware of the concerns about the IRUs?

Mr. HELLMAN. He would have been, in that the audit committee reported back to the full board, and he was a member of the full board. So, clearly, from the audit committee standpoint, he would have been aware of those concerns. And I can't address whether he would also be aware of the concerns meeting directly with the independent auditors or his chief financial officer.

Ms. DEGETTE. And what specifically were the concerns of the audit committee?

Mr. HELLMAN. The concerns—

Ms. DEGETTE. About the IRUs.

Mr. HELLMAN. The concerns of the IRU is it is an extremely complex transaction, and it has to be appropriately applied to the specific transaction the company is entering into. Arthur Andersen—

Ms. DEGETTE. And it has to have a business purpose.

Mr. HELLMAN. It has to have a business purpose. But that is only one of the multitude of elements that an IRU would have to have to achieve the recognition of income that the company's policy called for.

Ms. DEGETTE. Okay. And you testified, when the chairman asked you the questions, that when Ms. Szeliga came to you and talked to you about the Cable & Wireless deal—remember that? That was the end of October. That involved about \$109 million. Is that correct?

Mr. HELLMAN. Yes.

Ms. DEGETTE. And later on you learned about additional deals with side agreements or—that is what we call them, because, you know, we are not accountants. And those totaled I guess, from what we have heard from Mr. Shaffer, around \$950 million, right?

Mr. HELLMAN. No, I think he was referring to all IRUs.

Ms. DEGETTE. Okay.

Mr. HELLMAN. Not just IRUs that would potentially have a side agreement.

Ms. DEGETTE. How many of the IRUs did you learn about with a side agreement?

Mr. HELLMAN. I believe there have been three.

Ms. DEGETTE. And what was the total of those three transactions? I think you are right.

Mr. HELLMAN. Well, it would be 109 plus the other two, which I can't—

Ms. DEGETTE. Right.

Mr. HELLMAN. And I—

Ms. DEGETTE. Even I took high school math, so I got that far.

Mr. HELLMAN. Okay. So I am trying to think on my feet. I don't know exactly.

Ms. DEGETTE. Okay. And did Ms. Szeliga also—

Mr. HELLMAN. But it would be a small portion of the subtotal.

Ms. DEGETTE. Did Ms. Szeliga also advise you that the other two did not need to be restated, the other two IRUs with the side agreements?

Mr. HELLMAN. No. I think we had a more formal investigation by the time that those transactions were discovered. It was not in the October 2000—

Ms. DEGETTE. When were those discovered?

Mr. HELLMAN. Well, Flag I think was one that you addressed last week.

Ms. DEGETTE. Right.

Mr. HELLMAN. And I believe that that was—arose from the mailing by our independent auditor as part of the scope of audit that the board approved in the beginning of 2002. And, therefore, I assume that it was first brought to Arthur Andersen's attention in January or February 2002.

Ms. DEGETTE. Okay.

Mr. HELLMAN. At that point, we conducted an investigation to determine if, indeed, there was—and that was an oral agreement, and to determine if there was an oral agreement. All people party to that transaction were interviewed, and we found that there was no substantiation that an oral agreement existed. The investigation is continuing as we are continuing all investigations.

Ms. DEGETTE. So in your opinion, that Flag agreement—there was no oral side agreement? Or you just don't?

Mr. HELLMAN. That is the company position.

Ms. DEGETTE. Hmm?

Mr. HELLMAN. That is the company position.

Ms. DEGETTE. Okay. Well, let me ask you, Mr. Shaffer. Why, then, have—or maybe you, too, Mr. Hellman. Why, then, have you restated that income from that transaction?

Mr. HELLMAN. As a part of the overall IRU accounting analysis, not because of any individual side agreement or collateral agreement.

Ms. DEGETTE. Mr. Shaffer, why was all of the IRU revenue restated?

Mr. HELLMAN. And I should point out when I was referring to—I was referring to contemporaneous transactions.

Ms. DEGETTE. Right.

Mr. SHAFFER. As Peter correctly points out, the contemporaneous transactions we have restated, the \$950 million worth—

Ms. DEGETTE. Right.

Mr. SHAFFER. [continuing] is the result of an analysis of our own policies and practices, as well as the underlying records in the company. At the conclusion of that analysis, I determined, in conjunction with our external auditors, that we could not sustain the accounting treatment which required revenue recognition. That is the reason that I—

Ms. DEGETTE. And why did you not believe you could sustain that?

Mr. SHAFFER. Well, this may get too specific, but, please, I hope not. One of the basic parameters of recognizing revenue on a contemporaneous transaction is that the assets that you have on both sides are dissimilar, meaning that you are giving—

Ms. DEGETTE. Right. We have been through this—last week, yes.

Mr. SHAFFER. And when we went to our records—and that would require, of course, if they were dissimilar that the records should reflect a group of assets. When we looked at the specific records, they were lacking. And as this is such a bright line test as far as recognition and revenue recognition is concerned, I—in my judgment, we had to restate the accounts, and that is why we did it.

Ms. DEGETTE. Thank you.

I will finish my questioning in a minute.

Mr. GREENWOOD. The time of the gentlelady has expired. We will do a second round.

As a matter of housekeeping, the Chair would ask unanimous consent that the—all of the documents in the binder be part of the record, as well as the—those discussed today, including the letter just introduced by Mr. Shaffer. Without objection, so it is.

The Chair recognizes himself for 10 minutes and turns to Mr. Mohebbi. And I would ask you to turn to Tab 62 in the binder, which is a series of e-mails, in part between you and a gentleman by the name of David Boast. They were sent on June 13, 2000. Do you have that document, sir?

Mr. MOHEBBI. Yes, Mr. Chairman.

Mr. GREENWOOD. Let me read from it in part. Mr. Boast writes to you, “We agreed at the time of the Touch America card allocation that we would not be able to do both this IRU and Touch America. This is not a challenge. It is impossible, and we shouldn’t spend any time at all on this, or we could jeopardize our other activities. Let us get Sales to find another IRU—to find other IRU opportunities.”

And then you wrote back, “What if we misroute the IRU, and then route it as it is supposed to?” And Mr. Boast writes back to you, “If we could do this, which I am not sure we can, then all we have to do is get audited, get caught, and get screwed,” to which you respond, “I know it is risky. I will take the fall for it.” Could you elaborate on that series of e-mails?

Mr. MOHEBBI. Yes. Actually, I would be delighted to get the opportunity to do that. And if I could, I would like to set the stage in terms of what the discussion is. The series of e-mails, Mr. Chairman, that are here start with an e-mail from—that have to do with engineering. There is a person in the wholesale organization that

is concerned about a sale—potential sale to a customer that may not be completed because there is a lack of equipment.

It was escalated to me by the person who ran the wholesale organization, and I obviously sent it to Mr. Boast, who was at that time responsible for operations and engineering. And one of the things that I do in my job is obviously to try to encourage people to do as good as they can and make sure that they get the work done.

Mr. Boast, in this particular case, at the moment thought that it was impossible to get these two particular jobs done at the same time. And my suggestion was: what if we misroute the IRU and then route it as it is supposed to? Misroute, in the long haul engineering parlance, is when you cannot connect from point A to point B.

Let us say, if you have an IRU, engineering-wise, if you can't connect by the shortest distance, and for a number of reasons—you don't have enough circuits, your network is incomplete—and you have to go maybe on a route that is not the shortest distance, the customer doesn't pay for it, but you have to go through a longer route to get there, that is really what the definition of the misroute is.

And I said, "Is it possible for us to do that and then maybe"—

Mr. GREENWOOD. Well, let me understand you. You said a misroute comes when you—

Mr. MOHEBBI. Yes.

Mr. GREENWOOD. [continuing] cannot connect point A to point B.

Mr. MOHEBBI. That is correct. That becomes so—

Mr. GREENWOOD. Just let me finish. Which then requires you, because of your inability to connect A and B, to go around. Now, it seems to me to be another thing entirely if you say, "What if we misroute it," because there you are not being forced to, you are choosing to.

Mr. MOHEBBI. Yes.

Mr. GREENWOOD. Correct? Okay.

Mr. MOHEBBI. So as I was saying, that the shortest connection between two points is the route. If you connect point A and point B but don't connect it through the shortest route, that becomes a misroute in the engineering parlance. And eventually—you can do a lot of misroutes.

And most of the people that have "new networks" have a lot of new—have what is called a misroute, and then later on you have to work with the customers, obviously, because misroutes—to change the misroutes and reroute them, you have to bring the circuit down. And if the purchaser is a carrier, for example, they will be out of service for a day, for 2 days, etcetera.

So in that particular case, my suggestion was, is it possible—you don't have—I understand you don't have the circuits to build that particular route—that we could go elsewhere and then come back?

Mr. Boast is obviously, then, talking about accounting and why this could be a potential with accounting, and uses, you know, the words that you mentioned. I believe that Mr. Boast mentioned those because he was worrying about what happens if revenue is recognized on this particular route. And then later on, if you want to change that particular route, there should be—there could be concerns about it.

Mr. GREENWOOD. And when he said that to you, when he——

Mr. MOHEBBI. Yes.

Mr. GREENWOOD. [continuing] when he communicated that to you, did you understand that that is what he was communicating to you, an audit concern?

Mr. MOHEBBI. Again, at the time, I am—this is—I am going with what I am seeing right now, and I saw this e-mail, obviously, a few days ago. But my reading right now is, Mr. Chairman, that he was concerned about the audit potential because of the revenue recognition implications on——

Mr. GREENWOOD. I understand that. My question is: do you assume that that is what you—that is what you believed his concern to be then?

Mr. MOHEBBI. I believed that concern to be then, yes.

Mr. GREENWOOD. Okay. So, then, and he—he talked about concern that you would get audited, get caught.

Mr. MOHEBBI. Yes.

Mr. GREENWOOD. And I assume “get screwed” means get in trouble with the law.

Mr. MOHEBBI. Yes. Or with internal auditors.

Mr. GREENWOOD. Okay.

Mr. MOHEBBI. That is——

Mr. GREENWOOD. So when you saw him respond that way, and you responded by saying, “I know it is risky. I will take the fall for it”——

Mr. MOHEBBI. Yes.

Mr. GREENWOOD. [continuing] what did you mean? That was not an engineering fall, was it?

Mr. MOHEBBI. No. Specifically, again, I am glad that you have—I have an opportunity to talk to you about that, because the words usually go with the people, and you have to know the nature of the people. In this particular case, I was dealing with engineers and operating people, and this was maybe the shortest way. The choice of words could be, again, discussed.

But this was the shortest way for me to say, “Look, you deal with the operational issues that you have. Try your best to try to get the two jobs done at the same time.” If there are—the concerns—the risks have to do with revenue recognition. If there are any concerns, we do the work. And let us say the accountants come back and say that the revenue can’t be recognized, I am going to take the blame for that. And that was what I was trying to communicate to Mr. Boast at that the time, to try to get the job done. Do your best to get the job done here.

And, again, if I could just provide the follow up, Mr. Chairman, since I had the opportunity, and I thank the staff for providing us with the information ahead of time. I checked on this particular scenario, and, indeed, Mr. Boast was incorrect. So the impossible did get done possibly, and the two jobs got done on the route, and the revenue was recognized in the quarter.

And by the way, the revenue wasn’t required in terms of what our objectives were for the quarters. But it was a risk that I was taking, believing that if the operating people did their work, you know, that that’s what I was asking them to do.

Mr. GREENWOOD. But it wasn't a legal risk you were taking. You weren't saying, "Go ahead and break the law. And if you get caught, I will take the—I will go to jail"?

Mr. MOHEBBI. No, Mr. Chairman. That is——

Mr. GREENWOOD. That is not what you were——

Mr. MOHEBBI. That was definitely not what I meant.

Mr. GREENWOOD. Very well. The e-mail to Nick Jeffery at C&W that came from your e-mail account has been the subject of a lot of controversy.

Mr. MOHEBBI. That is right.

Mr. GREENWOOD. I think it can be found in Tab 64.

Mr. MOHEBBI. Yes, sir.

Mr. GREENWOOD. If you don't have it in front of you right now.

Mr. MOHEBBI. Yes, I do, Mr. Chairman.

Mr. GREENWOOD. Okay. Now, do you recall sending that e-mail?

Mr. MOHEBBI. I do not recall sending this e-mail, Mr. Chairman.

Mr. GREENWOOD. Okay. Did you give anyone else permission to send this e-mail from your account?

Mr. MOHEBBI. I do not recall giving someone permission from my account to send it, no.

Mr. GREENWOOD. Can you imagine how an e-mail would be sent from your account without you sending it or you giving someone else permission to send it from your account?

Mr. MOHEBBI. Again, I do not. And one of the key things that I wanted to do was I wanted to make sure, because it is an important part of the discussions that we have had here——

Mr. GREENWOOD. Right.

Mr. MOHEBBI. [continuing] and I think it is important that as we find out what the technicality is and how an e-mail can be sent, it is important to note that we do know that it went from my computer, that it went from a computer that had my name on it. So I better, and I will, take full responsibility for the e-mail. I have reviewed——

Mr. GREENWOOD. Although you say you don't recall sending the e-mail, you don't rule out the possibility that, in fact, you typed all these words into your computer and sent it?

Mr. MOHEBBI. No. I believe that I have—I think we have enough data that we have provided that showed these particular words were actually negotiated extensively by the contract team. As I mentioned in my opening testimony, there are contract teams in Qwest that work on contracts and addendums, etcetera. These particular words I think were presented, negotiated. And, again, I did not notice obviously at the time. This is all that we have found out so far, Mr. Chairman.

These words were negotiated, a lot of back and forth in terms of what they meant, and then they were okayed by the experts. While I did not recall sending it, if I am looking at it right now, and if it was presented to me in the process, the way that we have a process to work, if somebody asks me within the process to send an e-mail, mainly because the customer needs a comfort level of some sort, I would have sent it.

Mr. GREENWOOD. But you are familiar with this particular C&W deal, correct?

Mr. MOHEBBI. I have read about it, and so I am a bit familiar with it, Mr. Chairman.

Mr. GREENWOOD. Mr. Jeffery of C&W swore in an affidavit provided to the committee last week that he spoke with you about this deal and about the contents of the e-mail prior to the e-mail being sent. Do you recall this conversation?

Mr. MOHEBBI. I do not recall that conversation.

Mr. GREENWOOD. Okay.

Mr. MOHEBBI. My recollection is that the first time I talked live in person with Mr.—I have not yet met Mr. Jeffery in person. But the first time I actually talked to him on the phone was sometime in 2002 when there were other issues with Cable & Wireless, and they specifically asked for me to be on a particular phone call.

Mr. GREENWOOD. Well, regardless of who sent the e-mail and whether you recall this conversation, the statements in this e-mail are problematic for Qwest in recognizing revenue up front, are they not?

Mr. MOHEBBI. I have not seen the statement, Mr. Chairman, of Mr. Jeffery.

Mr. GREENWOOD. No, the e-mail itself.

Mr. MOHEBBI. I do not believe so.

Mr. GREENWOOD. Why not?

Mr. MOHEBBI. Again, for the number of reasons that I mentioned. The text of this particular e-mail was reviewed and okayed by our experts, and the company, as well as the experts—you can add my name on it that I am not the experts—believe that this particular e-mail does not change the substance of the transaction, and that the transaction at hand, it was mainly provided as a comfort level and to provide some pricing, and that is the position that the company has taken all along.

Mr. GREENWOOD. Did Ms. Szeliga disagree with that statement?

Mr. MOHEBBI. I don't know why Ms. Szeliga would disagree with that particular statement.

Mr. GREENWOOD. She didn't find a problem with this e-mail and with this practice?

Mr. MOHEBBI. I think, again, I am providing you with my opinion, Mr. Chairman. I think Ms. Szeliga could have had issues with the process, which is when you have a particular e-mail like this one that is sent, obviously there is a contract file, and there is a filing process, and maybe she has got a problem with a particular process.

But it has been the experts' definition and the experts' opinion that have seen this particular e-mail that this does not change the substance of the transaction at hand.

Mr. GREENWOOD. Well, Robin Szeliga told us last week that she was very angry because you knew not to do this, and, more importantly, that you were the president of the company. She said that she was angry and that this bothered her.

Mr. MOHEBBI. Okay. Who did she share her anger with? Because, Mr. Chairman, I know that—

Mr. GREENWOOD. She said with you. She said that she shared that with you.

Mr. MOHEBBI. Ms. Szeliga, to the best of my recollection, after this particular e-mail was identified, was—had actually stopped by

my office. And I believe at the time counsel was with her as well. And she indicated about the existence of the e-mail. The tone of the discussion was, again—generally, the tone of the discussion with me is very regular. It wasn't—

Mr. GREENWOOD. Why do you suppose she didn't know about this e-mail for 10 months after it was issued?

Mr. MOHEBBI. And that is, Mr. Chairman, what I was saying, is that if there was an issue, maybe the issue was that there is an e-mail. The content of the e-mail, the experts have looked at it, they have negotiated the words, and it does not change the substance of it, so maybe—

Mr. GREENWOOD. Why wouldn't this language—if this was important to send to—this is important information, why wouldn't this be part of the upfront contract? Why did this have to travel in e-mail form, unbeknownst to others in the company, for as much as 10 months?

Mr. MOHEBBI. That is a good—

Mr. GREENWOOD. It certainly strikes us as kind of a secret side deal that might have been necessary in order to allow for the accounting to be done the way that it was without this kind of an agreement being visible to the world.

Mr. MOHEBBI. Mr. Chairman, certainly there were no intents to hide this particular agreement. My understanding is, in particular, that there is a process that these documents go through, and this document went through that process, to the degree that we have found them.

I think if there is an issue it goes back to once that document was sent, what happened to the filing of the document, but you asked a specific question which—which I agree, and I would like to respond to, and that is, why is there even a need for addendums to contracts? And, again, my—

Mr. GREENWOOD. Well, addendums to contracts are just that. They are appended to the contract.

Mr. MOHEBBI. Okay. That is correct.

Mr. GREENWOOD. They become part of the original document.

Mr. MOHEBBI. That is—

Mr. GREENWOOD. An addition to the document. They become visible to anyone who would examine the document.

Mr. MOHEBBI. And, Mr. Chairman, sometime—

Mr. GREENWOOD. They are not written on the palm of your hand and flashed up and then held down.

Mr. MOHEBBI. Mr. Chairman, in this particular case, I believe, as I found out, that the customer required some comfort regarding particular pricing, and this particular—

Mr. GREENWOOD. Then, why didn't—that would—why was that not, then, included or amended, appended to the contract?

Mr. MOHEBBI. That is a good question. I do not have the answer to that question, because I don't do the specific contracting, and I don't want to come up with a reason that that is not correct. What I can tell you is that the one point that I could say is—that you could look at, and if you say going through this whole process is once a particular document, no matter whether it is a comfort letter, etcetera, it has got my name on it, and that is obviously significant if it has gone from Qwest.



I believe maybe the filing of a particular document like this one is important. And I cannot attest to you that when this particular document was sent from my computer that the way that it was filed was something that I followed up on, and maybe that is something that I had to find out about, and the filing was something to go after.

But I don't think—I want to make sure—from where I sit, and from what I know, I don't think there was an attempt made, Mr. Chairman, to try to write a quick e-mail and then have it be anywhere.

Mr. GREENWOOD. Okay. But you understand what you are testifying under oath to. You are saying, "This came from my computer, but I didn't do it." You are saying—

Mr. MOHEBBI. But I—

Mr. GREENWOOD. [continuing] that, "Yes, it was not included in the contract, but I don't know why." You are saying that, "It took 10 months for the finance people to know about this, but I don't really understand why that is." And so you can't explain any of this.

It is a great mystery to you. And yet there is a plausible explanation that those of us trying to interpret all of this would have, and that would be that this would be a very convenient way to manage the revenues the way you wanted to, and be able to have it both ways—in other words, be able to have the accountants treat the revenues one way and yet this not show up on the legal documents, because, in fact, it may very well have been that if it was incorporated in the legal documents, it wouldn't have been—you wouldn't have been able to account for the revenues that way.

So on the one hand, you have a very plausible, a very logical reason why this would be done in a surreptitious fashion. On the other hand, we have your explanation which says, "I don't understand how it came out of my computer. I don't understand why it wasn't part of the document. I don't understand why the finance people didn't know about it for 10 months."

Mr. MOHEBBI. If I could reply to that, Mr. Chairman.

Mr. GREENWOOD. Please.

Mr. MOHEBBI. I think one of the things that I wanted to make sure to be helpful to the subcommittee was that there was a lot of discussion, and I believe it was the ranking member that says it is interesting that nobody is taking responsibility for this e-mail being sent.

And one of the things that I said was, obviously, I want to make sure you knew what the circumstances around the e-mail is. But I take full responsibility for the e-mail. It has got my name on it. I don't recall sending it, but that is an issue separate from—it is—I take accountability for this e-mail.

I believe also that what I tried to tell you is that the experts at the company that had reviewed this particular—we have done, as a company, a lot of work in this particular area. The experts have reviewed the text of this particular e-mail. The experts included contract management, people from the financial organization, legal—they had reviewed this particular document. And before and after it was sent, those particular experts' position has been that

this particular e-mail did not change the content and the—did not change the substance of that transaction.

That is the—that is what I am trying to tell you, is that we strongly believe that this particular e-mail did not change the substance of transaction. And I don't want the subcommittee to be hung about, was the e-mail sent? Was the e-mail not sent? We have verified the e-mail was sent. So let us just take it at that, and say, "I will take—it has got my name on it. The buck stops with me."

Mr. GREENWOOD. Would you describe the oral agreement with Flag in the same way, that it wasn't—the oral agreement with Flag, would you describe that in the same way, that it was just a matter of comfort, it didn't change the nature of the contract? Did you watch the hearings last week or read the transcript of them?

Mr. MOHEBBI. No. Some, Mr. Chairman, not the whole—not the whole transcript. I apologize. I don't—I was not personally involved in a Flag transaction, in terms of what a particular Flag transaction was. If you would like me to familiarize myself—

Mr. GREENWOOD. Well, my time has expired. I am going to recognize the gentlelady from Colorado for a second round now.

Ms. DEGETTE. Thank you, Mr. Chairman.

Mr. Mohebbi, just to follow up on a question of the chairman's, you said that Ms. Szeliga, when she learned about this e-mail, which apparently is unnumbered—you know the one I mean—

Mr. MOHEBBI. Yes, Congresswoman.

Ms. DEGETTE. The famous e-mail. That Ms. Szeliga showed up at your office with counsel.

Mr. MOHEBBI. That is my—

Ms. DEGETTE. Okay. Who was the counsel she showed up with?

Mr. MOHEBBI. It could be a number of people, but I believe—

Ms. DEGETTE. Was it an internal attorney?

Mr. MOHEBBI. Yes.

Ms. DEGETTE. Okay. And did she—was she prone to showing up at your office with a lawyer?

Mr. MOHEBBI. No.

Ms. DEGETTE. So was this the first time she had done that?

Mr. MOHEBBI. I don't think so. There had been other times.

Ms. DEGETTE. How many times?

Mr. MOHEBBI. I can't state that many.

Ms. DEGETTE. Like less than 10?

Mr. MOHEBBI. Fair statement, Congresswoman.

Ms. DEGETTE. I mean, if someone shows up at your office with a lawyer, you kind of pay attention, huh?

Mr. MOHEBBI. No.

Ms. DEGETTE. No, you don't?

Mr. MOHEBBI. Given—actually, in terms of my day-to-day activities, a lot of lawyers show up at my office and for different—

Ms. DEGETTE. Okay. So now you are saying, no, it wasn't unusual for her to show up with a lawyer?

Mr. MOHEBBI. No. You specifically asked, "Did Ms. Szeliga showing up with a counsel was an unusual event"?

Ms. DEGETTE. Okay. But that brought your attention to the issue, right?

Mr. MOHEBBI. Not anything more than usual, but—

Ms. DEGETTE. And what did you and Ms. Szeliga and the counsel discuss at that meeting?

Mr. MOHEBBI. I don't remember the exact discussion. I believe the gist of it was that Ms. Szeliga had identified this particular e-mail.

Ms. DEGETTE. Right.

Mr. MOHEBBI. And wanted to make me, first of all, aware of it, that it existed. And told me, you know, did you write this e-mail? And——

Ms. DEGETTE. And what did you say?

Mr. MOHEBBI. I don't remember exactly what I said, but I would say the gist of it is that I don't believe I wrote this e-mail. And——

Ms. DEGETTE. And what was the result of the meeting?

Mr. MOHEBBI. I don't think there was a result.

Ms. DEGETTE. Did she tell you, "Don't do this anymore. This is against company policy"? No?

Mr. MOHEBBI. Congresswoman, there were no discussions like that. It was more of a——

Ms. DEGETTE. Did she tell you she was going to take this matter to the audit committee because it was inappropriate under your accounting rules?

Mr. MOHEBBI. I don't believe so, Congresswoman.

Ms. DEGETTE. Okay. So you remember she showed up with counsel. You don't really remember what was discussed. Do you remember, was she mad or not? Angry?

Mr. MOHEBBI. I don't remember if she was mad.

Ms. DEGETTE. Take a look, Mr. Mohebbi, at Tab 35 in your notebook. That is a May 2001 e-mail to Greg Casey.

Mr. MOHEBBI. 35?

Ms. DEGETTE. Yes. Oh, wait, that is in the first binder. Have we got that into—I am sorry. We get a new binder every time we come, so——

Mr. MOHEBBI. No problem.

Ms. DEGETTE. It is dated—while she is looking for that—I will come back to that. I have a couple more questions for Mr. Hellman. Oh, 66.

Mr. MOHEBBI. Yes, ma'am.

Ms. DEGETTE. And that is an e-mail from you to Greg Casey dated—your e-mail is dated May 14, and there is a prior one dated May 12. And on May 12, you say to Mr. Casey, "What do you think about this quarter? Can we make it? Business is in bad shape. This is a bad April. So we need a ton of one-time items to make the quarter."

And then you say in the next—May 13 memo—I guess that is from Mr. Casey to you. He says, "I think that Robin said we weren't going to do any more deals where we pick up facilities at the same time someone buys them from us." And then it goes on.

So my question to you—and then you respond and you say, "I will talk to Robin on the accounting rules." This is in May 2001. Did you ever talk to Robin Szeliga about the accounting rules?

Mr. MOHEBBI. Congresswoman, I do not remember I did that. And one of the reasons that I don't remember doing that is because, if you look at that particular e-mail, it cc'd Bill Eveleth, who is a senior financial executive in the company. And I think I cc'd

him, and I particularly wanted him to deal with the issue. And my——

Ms. DEGETTE. Well, but that is not what your e-mail says.

Mr. MOHEBBI. No. My——

Ms. DEGETTE. Your e-mail doesn't say, "Bill, talk to Robin about the accounting rules." It says, "I will talk to Robin about the accounting rules."

Mr. MOHEBBI. I don't believe or I don't——

Ms. DEGETTE. You don't remember talking to Robin about the accounting rules?

Mr. MOHEBBI. No, Congresswoman.

Ms. DEGETTE. Do you know what happened to this WorldCom deal that this was—that was being discussed in this e-mail? And was a port agreement ever negotiated?

Mr. MOHEBBI. A version, a particular transaction with WorldCom. I am just speaking from memory. I am not sure. I believe a particular transaction with WorldCom was negotiated.

I also—if I could make a statement on this particular e-mail——

Ms. DEGETTE. Brief.

Mr. MOHEBBI. Because I have seen this particular e-mail. When I talk about——

Ms. DEGETTE. Oh, good. Go ahead.

Mr. MOHEBBI. Can I?

Ms. DEGETTE. Yes.

Mr. MOHEBBI. Thank you very much. When I am talking about business is in bad shape in this particular e-mail that you mentioned to the original—to Mr. Casey, that is the Business division, not business—we had four particular divisions that were revenue-generating divisions.

Ms. DEGETTE. Right.

Mr. MOHEBBI. National Division, Consumer Division, Business Division, and Wholesale Division.

Ms. DEGETTE. Right.

Mr. MOHEBBI. And so I just want to specifically make sure you understand I wasn't talking about the corporation. It wasn't an issue of corporation. It was me talking to somebody who ran a sales force, and I wanted to see how good—how much more—the e-mail started by saying, "Look how good we are doing." Generally, when you send me an e-mail like that, my next question is, "How much better can you do?" And this was a way I had to try to ask that.

Ms. DEGETTE. Well, I don't know, because the May 12 one then says, "Can we make it? Business is in bad shape."

So let me turn to you, Mr. Hellman. I just have a couple more questions to follow up on my previous questions. You said that in the executive session, I believe in early December, you spoke with Mr. Nacchio about instilling the highest level of ethical standards. Remember that? Yes?

Mr. HELLMAN. Yes, that is my testimony.

Ms. DEGETTE. Okay. Now, in fact, the board was concerned about Mr. Nacchio's highest level of ethical standards before that, weren't they?

Mr. HELLMAN. I think that in the environment—to set the context, in the environment we wanted to make sure that he set the right tone, that he went out of his way to be proactive.

Ms. DEGETTE. Okay. Take a look at Tab 71 in your notebook.

Mr. HELLMAN. Okay.

Ms. DEGETTE. Got it?

Mr. HELLMAN. Yes.

Ms. DEGETTE. Now, that is the CEO evaluation results from the board of directors meeting September 13 and 14, 2001. That would be the evaluation of Mr. Nacchio, right? Were you at that meeting?

Mr. HELLMAN. I don't believe this was presented in mid-September because of 9/11. I think this meeting was canceled. To the best of my recollection, it was then presented in December.

Ms. DEGETTE. Okay. So it was presented in December 2001.

Mr. HELLMAN. Yes. And I attended that meeting by phone.

Ms. DEGETTE. Okay. Did you ever receive this document?

Mr. HELLMAN. I did not, but—

Ms. DEGETTE. Okay. Well, let me—is this the first you have seen it, just now?

Mr. HELLMAN. I think it has been shown to me in the course of the process.

Ms. DEGETTE. Of the hearing. Okay. Well, let me just ask you, since you were there by phone, did you discuss some key development needs of fostering legal and ethical conduct, “make the numbers or else,” accounting credibility issues?

Mr. HELLMAN. Yes, I believe that was discussed in that meeting.

Ms. DEGETTE. Too short-term oriented, was that discussed?

Mr. HELLMAN. I believe it was.

Ms. DEGETTE. Keeping the board fully informed, involved, utilized, was that discussed?

Mr. HELLMAN. I have less of a recollection of that, but I have no reason to think it wasn't discussed.

Ms. DEGETTE. Okay. I mean, the board really had some concerns about the way Mr. Nacchio and his team were treating these accounting issues, weren't they?

Mr. NACCHIO. Congresswoman, do I get a chance to respond?

Ms. DEGETTE. Sure. We will let you respond after Mr. Hellman.

Mr. HELLMAN. I think these are shown as key areas of improvement. We also, in balance, saw some very good professional skills as well.

Ms. DEGETTE. Right.

Mr. HELLMAN. But, clearly, we were—I mean, the document speaks for itself. We were asking him to address these developmental—

Ms. DEGETTE. And were these issues discussed with Mr. Nacchio? Was he there?

Mr. HELLMAN. Not being on the phone—the common practice would be to meet in executive session, and then have the chairman of the compensation committee meet with Mr. Nacchio to give him both the assessment, this formal document, plus any other discussion items that would occur in the executive session. But I can't speak for—

Ms. DEGETTE. So you don't know whether those things were discussed.

Mr. HELLMAN. I do not know. That was the normal practice.

Ms. DEGETTE. Mr. Nacchio, were they discussed with you?

Mr. NACCHIO. Congresswoman, thank you for giving me the opportunity. My CEO evaluation was discussed with me by the compensation committee of the board.

Ms. DEGETTE. Okay.

Mr. NACCHIO. I believe it was in October. It was just about the time they were asking me to sign a new 4-year contract.

Ms. DEGETTE. Right.

Mr. NACCHIO. And I would like to put this in context. First of all, I have seen this report now with the detailed opinion sheets of all the things I was strong in, all the things I was supposedly weak in. And if you look at the bottom of some of these pages, you are going to see it says there is a wide disparity between board members on this assessment.

And I would like to set the context. This board of directors, for which I was co-chairman—I know for the purposes of this meeting I am now the chairman. But when we ran the company I was co-chairman. Mr. Anschutz managed the board.

And I want to make a point. I had a hostile board. Half of my board members were, as a result of a hostile acquisition of US WEST when they wanted to merge with Global Crossing—half those board members were hostile to me as the CEO from day one. I am not surprised to see the wide disparity of scores.

I was prepared to finish my 5-year contract with Qwest in the fall of 2001 and leave. I was encouraged to stay for 4 additional years. As a matter of fact, back to a previous e-mail that I was—I never got to see, the e-mail from Mr. Hellman to Mr. Stevens dated October 24, that happens to be the day they signed me to a new contract.

Ms. DEGETTE. Right.

Mr. NACCHIO. I was prepared to leave, and it is one of the reasons I did not put up a fight at the end, because I was prepared to leave 6 months earlier. My 5 years were up. I stayed because the board asked me to. The overall evaluation was above average, and there was no specific discussion about ethical behavior or my leadership of that in that compensation committee meeting.

I apologize for being a little bit direct, but I take this personal.

Ms. DEGETTE. I understand that, Mr. Nacchio. And that is what I wanted to ask you was, did they discuss—did the board discuss with you the accounting credibility issue and “make the numbers or else” accounting credibility issue, did they discuss that as a weakness with you?

Mr. NACCHIO. No, they did not.

Ms. DEGETTE. Did they ever discuss that as a weakness?

Mr. NACCHIO. No, they did not, not that I remember.

Ms. DEGETTE. During the time period December 2001 or through the spring of 2002, did they ever discuss the issue of they thought that you were too creative on accounting, or they would have to restate income on that? Did they never discuss that with you?

Mr. NACCHIO. No. First of all, I don’t do the accounting for the firm. Okay? I am not—

Ms. DEGETTE. Right. But you are the captain of—

Mr. NACCHIO. Excuse me.

Ms. DEGETTE. [continuing] the ship.

Mr. NACCHIO. May I finish?

Ms. DEGETTE. Sure.

Mr. NACCHIO. They never specifically spoke to me about my leadership abilities and setting the improper tone on this matter or any other matter. In terms of the accounting of the firm, as you pointed out earlier in your testimony, on issues of IRU accounting and the fact that we were following advice from Arthur Andersen, and this issue was being discussed in the accounting industry under the emerging industry task force, the board was fully aware of all of the issues on our strategy, our business purpose, and our accounting from 2000, at least the new board that we inherited as a result of the merger, from 2000 on.

I was never disciplined. I read a newspaper article recently where it was quoted that—I think it might have been you being quoted, that someone had the interpretation I was severely disciplined, at least verbally. There was a different term used. That did not occur. I was encouraged to stay. I would have been happy to leave at the end of 2001. I would personally have been better off had I left at the end of 2001. But I am happy to be here to cooperate.

Ms. DEGETTE. So what you are saying is, at the same time they are writing in the board minutes that they have concerns about your accounting treatments, they are renewing your contract for 4 years.

Mr. NACCHIO. Yes.

Ms. DEGETTE. Correct? And one last question. You said that Mr. Anschutz had dual responsibility with you. My question is: how involved with the board and the company was Mr. Anschutz in the accounting decisions and in the day-to-day business decisions of the firm?

Mr. NACCHIO. Phil Anschutz and I were close friends for five and a half years. I spoke to Phil 2 to 3 times a week. Every major decision I made at this firm I sought his counsel. In the old Qwest, he was the majority owner. He headed the executive committee. I always went to Phil Anschutz when I needed counsel.

Many times, I would get calls from Phil just to find out what was going on. Phil was very involved. He was helpful to me. His vision, combined with my vision, helped us to create Qwest. And he was co-chair of the board. For board matters, I went to Phil. Phil managed the relationship with the board.

Ms. DEGETTE. And so it is your testimony under oath today that neither Mr. Anschutz nor the rest of the board ever talked to you about concerns about accounting treatments? Is that your testimony?

Mr. NACCHIO. To my recollection, they never spoke to me about this tone at the top and changing the behavior, other than the December 5 audit committee meeting, for which I have already given testimony. And I was encouraged to stay at Qwest through the fall of 2001. I was encouraged to stay with Qwest right up until the end.

Ms. DEGETTE. Mr. Shaffer, do you—

Mr. NACCHIO. I mean, board members were calling my wife to encourage her to convince me to stay.

Ms. DEGETTE. Do you have any information about this, Mr. Shaffer, whether these matters were brought to Mr. Nacchio's attention?

Mr. SHAFFER. Congresswoman, this is long before my arrival at Qwest, so I can't help out there at all.

Ms. DEGETTE. Mr. Hellman, do you know of these matters ever being brought to Mr. Nacchio's attention? Were you ever there besides the December 5 meeting when the accounting issues were discussed with Mr. Nacchio, or the issues of the tone and everything else?

Mr. HELLMAN. As I stated on this evaluation form that you gave me, I don't recall getting it. Therefore, since I attended the board meeting in December by phone, I assumed it might have been done there. If it was done in October, I don't recall getting it, just to set the record straight. And I am sorry, I have forgotten your question. Do I ever remember that there was—

Ms. DEGETTE. The question is: were you ever present when there were discussions between the board—

Mr. HELLMAN. Full board.

Ms. DEGETTE. [continuing] and Mr. Nacchio—or any subsection of the board, any committee of the board, any informal group of directors of the board, telling Mr. Nacchio about the concerns which are raised in the document which you have seen about the accounting treatments and the ethics?

Mr. HELLMAN. The December 5 executive session I was present.

Ms. DEGETTE. Right.

Mr. HELLMAN. He was there. The chairman of the committee—I was there by phone, but I was present for that committee, where we pointed out our concerns that we wanted him to be more proactive in demonstrating tone at the top and in forcefully aligning the organization to the Code of Conduct.

Ms. DEGETTE. And I assume you were also present at the September 19, 2001, meeting, because the minutes reflect that. That is Tab 71. Well, no. Did you have a meeting on September 19? Or was that the one you said got put off until December?

Mr. HELLMAN. No, I believe—if I could just look to Tab 71.

Ms. DEGETTE. Yes. That is the one we were talking about with the CEO evaluation results.

Mr. HELLMAN. The CEO evaluation dates I believe was going to be a strategic retreat. It was canceled because of 9/11. I believe there might have been a September board meeting that was later in the month, but it was telephonic because of travel, obviously.

Ms. DEGETTE. Now, after December 5, you—I mean, you knew about a lot of the income that was problematic—the \$109 million, some of the other transactions which you found out about later. Between that December 5 meeting and when Mr. Nacchio was let go in June of this year, do you recall any other discussions between the board and Mr. Nacchio about the accounting and ethics issues?

Mr. HELLMAN. As we went into the first half of 2002, there was a lot of discussion about IRU accounting.

Ms. DEGETTE. And was Mr. Nacchio present at those meetings?

Mr. HELLMAN. Well, he would have been at the board meeting, and I know that, indeed, the audit committee reported back to the board, and we would have reported back, and we did report back



our concern—not necessarily concern. The point is that the IRUs were being, by then, fully investigated. We had hired outside counsel, which Mr. Nacchio would have been aware of—actually two, Boyd Schiller and Wilmer Cutler.

They were going through a thorough review. We had received inquiry from the SEC regarding the accounting, and then that inquiry had turned into a formal investigation. I believe he was aware of the investigation and all of the IRUs issues.

Ms. DEGETTE. And why did you all wait until June 2002 to terminate his employment?

Mr. GREENWOOD. This will be the last question.

Ms. DEGETTE. It is the last question.

Mr. HELLMAN. I believe that in the backdrop we were also dealing in an industrial environment. That we—as I had pointed out, there were issues—there were areas of weakness, or areas of development I think it is called. But more importantly, the industry was going through a down turn, and, on the broadband side, a collapse.

We felt that the skill set that Joe had—and I point to skills, those things that he had demonstrated over the years he had been with Qwest, were not necessarily the skills that we needed going forward in this very different environment, or an environment more attune to an RBOC than a broadband internet company, more like, if you will, the conventional US WEST, less like Qwest.

Is that responsive?

Ms. DEGETTE. Yes, thank you very much.

And thanks for your comity, Mr. Chairman.

Mr. GREENWOOD. Certainly. The Chair thanks the gentlelady and recognizes himself for 10 minutes for inquiry.

Let me go back to you, Mr. Mohebbi, because you and I had a dialog a little while ago about the side deal and the e-mail and C&W, and you didn't know that it came from—whether it came from—you knew it came from your computer, but you don't know who sent it, and you didn't know why it was sent, and you don't know why it wasn't a part of the contract, and you don't know why it took 10 months for the finance folks to find out about it.

And then I asked you about the Flag side agreement that was testified—to which we heard testimony last week. And you said you didn't know about that.

Mr. MOHEBBI. Not the specifics of it.

Mr. GREENWOOD. You don't know about the specifics of that. And Global Crossing told us last week that they had what they thought was a binding oral agreement. Do you know about that? Do you know the details of that?

Mr. MOHEBBI. I don't know the details of that. That one I read in the newspapers, Mr. Chairman, and what I can say is I have not had direct involvement with Global Crossing executives on particular transactions. So I would not—

Mr. GREENWOOD. Okay. Here is what I am struggling with.

Mr. MOHEBBI. Yes.

Mr. GREENWOOD. You are the President and the Chief Operating Officer of this company. Okay? And these are transactions that happened in the fourth quarter of 2000, in the first and second quarters of 2001, in June 2001. It was a while ago. And why is it that I know more about these transactions than you do? Why is it

that my counsel knows a thousand times more about these transactions than you are admitting to?

It would seem to me if, in fact, you knew nothing about them then, that you don't have a whole lot else to do except to understand how this company operates, that you would have—if you didn't know about them then, that by now that you would be an expert on them, that you would—that this company has been involved in an investigation of these, an internal investigation of these matters.

Why are you not an expert? Why are you not fully informed about the motivation for these side agreements, who conducted them, what their legal consequences were, what their accounting consequences were, who was engaged in them? Why do you not know that as of today?

Mr. MOHEBBI. Mr. Chairman, in terms of my responsibilities, obviously one of the things that I was responsible for is to ensure that there are processes in the company that took care of key issues and key transactions.

Mr. GREENWOOD. Right.

Mr. MOHEBBI. Obviously, as we discussed, IRUs are key transactions.

Mr. GREENWOOD. Right.

Mr. MOHEBBI. And we had processes to take a look at them. You mentioned the issue of specific transactions and the contracts, and that there were concerns that were brought up by our former chief financial officer in this area, and they were brought up to the board of directors, to the chief executive officer. I was not in that particular discussion.

And then, as the investigations were going on obviously, the investigations that were conducted, they were just being conducted obviously independently. They were going through everything that was happening and checking the processes per se.

So I am here to help you as much as possible, and——

Mr. GREENWOOD. But you are still in charge of processes and policies, and so forth, are you not?

Mr. MOHEBBI. In charge of processes and policies. I am not specifically in charge of processes and policies. I ensure that other people are in charge of processes and policies.

Mr. GREENWOOD. Okay. You ensure that. I got that.

Now, if it were my job——

Mr. MOHEBBI. Yes, sir.

Mr. GREENWOOD. [continuing] to ensure that the processes and policies of the company were followed, one of the first things I would have done recently would have been to say, "What in the heck was going on with those side agreements?"

Mr. MOHEBBI. Yes, sir.

Mr. GREENWOOD. I need to understand, how could an e-mail mysteriously be sent from my computer? Why would the finance people not know about this? Whose idea was it to have these oral agreements? What did they mean? So certainly you would be, it would seem to me, busy about trying to understand how these things happened, so that going forward everyone was clear. Have you done that?

Mr. MOHEBBI. I apologize if the—it if looks like, you know, I wasn't looking at them. In my opening statement, Mr. Chairman, one of the things that I said was that the transactions—I personally haven't gone through every particular transaction in the—

Mr. GREENWOOD. But these have been the subject of gigantic scrutiny.

Mr. MOHEBBI. Yes.

Mr. GREENWOOD. I mean, the Congress is scrutinizing these. The SEC is scrutinizing these.

Mr. MOHEBBI. And as—

Mr. GREENWOOD. The Justice Department is scrutinizing these. Journalists are scrutinizing these. Employees of the company are scrutinizing these. Everyone is scrutinizing these things except you, whose job it is to scrutinize these things.

Mr. MOHEBBI. As a result of the increased concerns, obviously in this particular area of the company, as Mr. Shaffer and others said, hired a number of outside experts, legal counsel, accounting experts.

Mr. GREENWOOD. Have you been consulting with them?

Mr. MOHEBBI. They have not, in particular—I have talked to them, of course. But they have a job to do, which is to get to the bottom of these particular transactions.

Mr. GREENWOOD. Is that not also your job?

Mr. MOHEBBI. In this particular case, no, it is not my job. So I haven't been involved, and I haven't been asked to go through each of these particular transactions.

Mr. GREENWOOD. Have you turned to these investigators—

Mr. MOHEBBI. Yes.

Mr. GREENWOOD. [continuing] and said, "In the course of your investigation, have you figured out how this e-mail flew out of my computer?"

Mr. MOHEBBI. No. But one of the things that I have done here is since we haven't gotten to the bottom of that, I have come to you and said, "I come from the school that says if it has got my name on it, I am representing the company."

Mr. GREENWOOD. Oh, I understand that.

Mr. MOHEBBI. The buck stops with me.

Mr. GREENWOOD. I understand that you take responsibility for it, but that is sort of like I take responsibility for it. I—

Mr. MOHEBBI. No. No, I said I take full responsibility for it.

Mr. GREENWOOD. I understand you take full responsibility for it, but you don't seem to have a lot of curiosity as to how it happened, so that you can understand it.

Mr. MOHEBBI. It is very important for us, as I have testified before in terms of other committees, and it was asked of the company to do an independent investigation of these transactions. It is very important that that independent transaction is completed. And I am sure—

Mr. GREENWOOD. When is that expected?

Mr. MOHEBBI. I am not sure. I am not the lead person that is responsible for the investigations. However, I would like to add, you asked a particular question—

Mr. GREENWOOD. It has been a year since this e-mail's information has been out.

Mr. MOHEBBI. I understand that, sir. But, however, there are a couple of things that I wanted to say. And I included that in my opening statement, Mr. Chairman, that did I have—have I had conversations with experts that are working on these particular transactions? Yes. And as I made the statement in my statement, I am not aware of a side agreement that has altered the nature of a particular transaction that we have had with a particular customer.

And, again, if—one of the things that I have stated in front of the other committees, as well as your staff, is that if we find through our independent investigation—

Mr. GREENWOOD. How long ago did that independent investigation begin?

Mr. MOHEBBI. I am not sure. Oren, you—

Mr. SHAFFER. Mr. Chairman, I—at the risk of not knowing the exact date, but I believe it was February 2002 the board directed management to—

Mr. GREENWOOD. This specific e-mail? Because we are told by the attorneys doing the investigation that they just started to look at this e-mail in the last couple of months.

Mr. SHAFFER. Well, I think—

Mr. GREENWOOD. Weeks. I am sorry, weeks.

Mr. SHAFFER. Right. That could very well be the stage of the review that they were at in the last couple of months, but I believe the review began in February 2002.

Mr. GREENWOOD. All right. Let me—while you have the microphone, just keep it there, Mr. Shaffer, because I have some questions for you. You stated just a little while ago that the reason that Qwest is restating is because you have concluded that the capacity swapped was not dissimilar but was, rather, similar.

This has been the core of what we have been trying to understand about your company, about Global Crossing, and about others. And that is, whether these swaps were, in fact, done for business deals, business purposes, or whether they were done simply to enhance revenue. Okay.

Why has Qwest now determined, and on what basis has Qwest determined, that these swaps are of similar assets and not dissimilar assets? How did you come to that conclusion?

Mr. SHAFFER. The bright line accounting test, as I said, is that in order for them to be dissimilar, even though they are both capacity—communications capacity—

Mr. GREENWOOD. Right.

Mr. SHAFFER. [continuing] one has to be held for resale as part of a business. And then the fact that you would buy additional capacity to complete a network would make them dissimilar.

In order to have dissimilarity, however, you have got to have a very clear identification of those assets held for sale. And as we reviewed our policies and our practices on accounting, we could not reestablish those records that were separate for these assets that, in fact, were sold.

Mr. GREENWOOD. So then it seems to me to follow that what you did conclude was that capacity swaps were made not for purposes of—consistent with the business plan, but simply to demonstrate revenue. Is that what you found?

Mr. SHAFFER. No, Mr. Chairman. What we found was that we actually did sell capacity, and we purchased capacity. Our problem with the accounting was we weren't holding a separate inventory of the capacity we were selling, but we actually—they were separate capacity deals, and we received and we gave capacity.

On the accounting treatment, which is my main focus right now, trying to get the accounts straight, the accounting treatment requires that they are very clearly—if I go back, I have to find the ledger that says these assets are held for sale. Couldn't find that ledger. And without that bright line test—

Mr. GREENWOOD. So what do you conclude was the purpose for these transactions?

Mr. SHAFFER. I have not—

Mr. GREENWOOD. Why were these transactions undertaken?

Mr. SHAFFER. These transactions—

Mr. GREENWOOD. Why were they undertaken in the times that they were—timeframes in which they were undertaken?

Mr. SHAFFER. My purpose to date has been to review and focus on the accounting treatment of the transactions. There are other groups which continue to review other areas and other subjects around these transactions, and that—

Mr. GREENWOOD. Well, isn't it—doesn't it pique your curiosity—has it not piqued your curiosity, as you have decided very meticulously that this transaction and this transaction and this transaction did not meet the definition of dissimilar, that they are similar? Has it piqued your curiosity as to why those transactions would have been conducted?

Mr. SHAFFER. It has definitely piqued my curiosity.

Mr. GREENWOOD. Have you found ways to satisfy your curiosity?

Mr. SHAFFER. We are in the process of doing that, as I said, by—

Mr. GREENWOOD. Have you begun that process?

Mr. SHAFFER. That process is underway.

Mr. GREENWOOD. What have you learned so far?

Mr. SHAFFER. I am sorry?

Mr. GREENWOOD. What have you learned so far with regard to the motivations behind the transactions that have proven to be similar, not dissimilar, and, therefore, cannot be considered—accounted for in the same way? What have you learned so far about—

Mr. SHAFFER. Well, the conclusion we have reached so far is that the accounting treatment, based on APB 29, which is dissimilarity, cannot be satisfied. So from an accounting point of view, we are reversing that revenue from our books.

Mr. GREENWOOD. I understand that. But you are not—

Mr. SHAFFER. And on the other—

Mr. GREENWOOD. [continuing] responding to my question.

Mr. SHAFFER. I am sorry.

Mr. GREENWOOD. The question is: as you look—as you take certain transactions and move from them category A to category B, you say you know what, these are not—don't meet the definition of dissimilar. In fact, they are similar transactions. Okay?

As you have looked at those ones that you say we cannot count this, we are going to restate because of this, what can you possibly

conclude would have been the motivation for engaging in and transacting a capacity exchange that was similar? What would be the business purpose of doing that?

Mr. SHAFFER. I think there are two things to remember here. One is that at the time the transactions were originally recorded, it would appear that the outside audit firm, Arthur Andersen, reviewing policy and practices, considered these transactions not to be—not to fail the accounting test, and, therefore, did have a business purpose. I am now——

Mr. GREENWOOD. Have you looked at them? Have you said, “I have got to take this transaction and move it over here?” Have you said to any of your compadres at the company, “Could somebody show me the business purpose for this transaction?”

Mr. SHAFFER. That is being discussed and reviewed.

Mr. GREENWOOD. Have you been involved in any of those discussions or reviews?

Mr. SHAFFER. And I have been concentrating on the accounting issues, but——

Mr. GREENWOOD. Have you been involved in any of those discussions or reviews?

Mr. SHAFFER. I have not to date, but when they have——

Mr. GREENWOOD. Do you know anything about those discussions or reviews?

Mr. SHAFFER. I am sorry?

Mr. GREENWOOD. Do you know anything about those discussions and reviews? Have you heard anything about whether or not there was a legitimate business plan to support these transactions?

Mr. SHAFFER. I have no readout of that information at this time.

Mr. GREENWOOD. Haven’t heard anything? No——

Mr. SHAFFER. It is not——

Mr. GREENWOOD. [continuing] water cooler chat about that?

Mr. SHAFFER. I don’t recall having those discussions. My discussions, as I say, have been directed entirely to the accounting treatment. I think it is very important that we get that issue settled with the SEC. I think it is a gating factor to go forward.

Mr. GREENWOOD. So who is investigating? Who is looking at these transactions? You understand why I am asking you these questions, don’t you? The reason I am asking you these questions is because I believe that these transactions were not done pursuant to any business plan. I believe that these transactions were done in order to book revenue. And that is my concern about Qwest. That is my concern about Global Crossing.

And I have been—I am in search of the business plan that—to which—pursuant to which these transactions were made. And when you tell me that they are similar transactions, it leads me to believe that maybe my suspicions are correct.

And I see Mr. Nacchio is chomping at the bit, so would you like to respond?

Mr. NACCHIO. Mr. Chairman, I am chomping at the bit. I am chomping at the bit to try to illuminate your question, because I have been listening to this conversation. I believe—and I don’t mean to put words in your mouth, so please correct me—you are asking about business purpose, and Mr. Shaffer is talking about how our new accountant, who is not abiding by the Arthur Ander-

sen advice, is asking him to—and I am not there now, so give me some latitude—is asking him to follow a certain new set of rules to determine similarity or dissimilarity.

I think, frankly, I hear you talking by each other. When we look at that map, and you can ask me any route, I will tell you the business purpose, I will tell you what budget it was in, and I will tell you what board meeting we reviewed it.

We were building a global network, and we were building a network in the U.S. that had the highest characteristics of reliability. We wanted physical diversity. We wanted power and space diversity. We wanted to terminate our own traffic to international points that we were passing to other carriers. We had very big and important clients requiring global requirements.

So the business purposes were clear. I have no position, since I have left, on what they are learning about the bookkeeping or the accounting. But I didn't want to mislead, because I still have a strong feeling for this company. We had business purposes. Had someone brought to me any transaction—as I said in my opening statement—simply to book revenues, and it did not match where we were trying to go globally, or what we were trying to do domestically, we would have killed it.

And I don't want to speak for other people on this panel, but I believe my senior officers who were doing that day to day would have done the same.

Now, in terms of accounting and in terms of crossing Ts, dotting Is, new rules, new FASB rules, what comes out of the emerging industry task force, I will have to leave that to Mr. Shaffer since I left.

I hope that was helpful.

Mr. GREENWOOD. Thank you, Mr. Nacchio.

So, Mr. Shaffer, back to you, would you please explain for the committee how this investigation, as to the business purposes of these transactions being conducted, by whom, and when we would expect the results?

Mr. SHAFFER. Mr. Chairman, in spite of the elucidation that Mr. Nacchio have given us, it seems I am still having a difficult time making my role clear here. I was not in a position to discuss any of these transactions with the people who did the transactions.

Second, I am purely focused at this point in time on cleaning up, changing, revising, documenting the accounting treatment. There are groups that are working in other areas of this review, and if and when they find something that needs to be reported out, I will be part of the group that they report it to. And if there are decisions that have to be made on the basis of that information, I will be part of the group that makes the decisions.

As of today, the progress that we have made—and I consider it quite substantial progress—we have taken a look at the IRU transactions. We have restated two-thirds of them. I have a time table of finishing the last group within weeks. We feel that we, in fact, are making good progress here, and we are getting things done.

Mr. GREENWOOD. All right. Let me turn back to Mr. Mohebbi and ask you to look at page—at Tab 72. This is an e-mail from you to Mr. Joe Dalton dated September 28, Friday, September 28, 2001, at 9:54 p.m. Do you see that?

Mr. MOHEBBI. That is correct.

Mr. GREENWOOD. Okay.

Mr. MOHEBBI. Just to a number of people, including Mr. Dalton.

Mr. GREENWOOD. Correct. And it says, "Team, as I am sitting here in the office at 10 p.m. Friday night, I need your help. We have issues with almost all deals we have on the table. We are committing to buy tons of capacity, eating away my capital expenditure"—you write "cap ex"—"and, in return, I am getting very little recognizable revenues. This must change and change this weekend."

"We also have completely given up pushing back at anything and anybody that comes up with yet another opinion to interpret things differently. I need you guys to mobilize. Since we have committed"—and then skip down. Here is the list, Cable & Wireless—"since we have committed to pay them \$49 million, let us at least pick circuit combinations that will allow us to book more."

So now this is, of course—you are running down on the end of the quarter. It is September 28. It is Friday night at 10 p.m.

Mr. MOHEBBI. That is correct.

Mr. GREENWOOD. Probably not going to be able to do much on Saturday or Sunday before the quarter ends. It looks like you are trying to figure out how to meet numbers at the end there, and it also talks about committing to buy tons of capacity, eating away at your cap ex and getting very little recognizable revenues. Could you explain what—how we should interpret this document?

Mr. MOHEBBI. I would be happy to. Part of what I do, Mr. Chairman, is to encourage, to push, to make sure that our people do the best they can do in terms of making their targets. Everyone has a goal, a target, and as we went through in previous e-mails, sometimes people think targets are impossible, and part of my job is to encourage them to do their best.

This is certainly one of those instances where I believe I was briefed, and the way that I generally was briefed is the number of transactions that were on the table, what were involved in the particular transactions, which meant what was it that we were buying, and generally when you are buying there is capital expenditures involved, and what we are selling.

And I believe that the subcommittee has gone through this whole issue of buying and selling, and that there is leverage with people that you are buying from at the time that you are buying from them. And that has just been part of the industry, mainly because other people had choices. We had choices. So certainly you want to take advantage of any leverage in a competitive market that you may have.

So in this particular case, as I was looking at the summary of transactions, as it was provided to me, I was not happy with the balance, I would say, in terms of these particular transactions. And as you can see, I am providing some feedback to these people in terms of what I thought would be what they needed to do in these particular transactions.

I wanted them to look at working with these particular customers. I wanted them to work within themselves to try to see what were the best transactions that they could work on for Qwest.



Mr. GREENWOOD. The question is: how do you think that the team would respond to that? I mean, again, the problem that we are concerned with here, to try to make it very simple, is that the team, seeing you unhappy, might be engaged in swaps—the dirty word—to meet the numbers to make you happy, and to lead the investors, including the investors who were employees of the company, into believing that, in fact, things were better than they were, when, in fact, what they were seeing was the result of your spurring people on to book revenues by virtually whatever means is necessary?

Mr. MOHEBBI. I think it is a good question, and I think that is why it is important sometimes to have the person to go with the message, because it gives you the full picture. What I was doing—and I did—is to make sure that our people did the best that they could do for Qwest.

If you look—these are a number of transactions. These are complex transactions. And we were buying, certainly, capacity, and we were buying it from particular companies. And I wanted to make sure that they leveraged that particular position that they had, because that is the best position that you had.

This is the time that I have needs, in terms of capacity that I need to build a network, and if I can't use that particular position as I am negotiating on things that other people need—and we were competing with other people vigorously to try to win those particular deals—then when is it that you can be competitive?

Now, there is an important issue that you brought up, and that is, didn't you think that the people may just take you literally and do things that—maybe something that I didn't want to do? And, certainly, I think, again, that—people who worked with me. These are people that I have e-mailed to that had worked with me. They know the type of person that I am.

In a particular e-mail, I think maybe it was even in this particular e-mail, I have mentioned to them that, "I want you to do your best, but you cannot cross a particular line. You cannot do something that is crossing a particular line." So I think that, in that particular case, I was specific, but that was in general what I was trying to do here.

Mr. GREENWOOD. Mr. Nacchio, does this look like a business plan to you?

Mr. NACCHIO. I am sorry?

Mr. GREENWOOD. Does this e-mail reflect business plans at work?

Mr. NACCHIO. This looks like communications between line people as they occur. I just wanted to add one thing that might help on your last question. It was—September 10 of this year is when I had already taken down the numbers and given new guidance to the markets. So I am not going to suggest I knew much about this one, because I think your staff has already asked me about it.

But this is not what you would call a business plan. This would be an operational—

Mr. GREENWOOD. The question was whether it reflected a business plan.

Mr. NACCHIO. There are still routes—

Mr. GREENWOOD. In other words, business—if this were saying, "We have customers who want to buy capacity between such a

place and such a place, and let us engage in transactions so we can meet that demand, and an additional plus would be that we would book revenues for that." That looks like it is a reflection of a business plan as opposed to a desperate attempt to book revenues, any revenues, in the waning 2 hours of a quarter.

Mr. NACCHIO. Mr. Chairman, how I read this is I am going to spend capital to finish building my global network. Why don't they buy anything from us rather than someone else?

Mr. GREENWOOD. Ms. DeGette, do you have any additional questions?

Ms. DEGETTE. Mr. Chairman, I just have one last question to clear up your previous questions to Mr. Shaffer.

Mr. Shaffer, you said that your job is to take a look at these deals and fix the accounting treatment. And you said other people were investigating, within the company, how the deals came about, and the other issues around that. Who are those people within the company? So that we can talk to them as we go on with this investigation.

Mr. SHAFFER. There is a group of outside advisors, accountants and lawyers, that are assigned specific tasks. They are being coordinated by counsel, internal counsel.

Ms. DEGETTE. And what is the name of that person?

Mr. SHAFFER. It is Mr. Rich Baer.

Ms. DEGETTE. Okay.

Mr. SHAFFER. And their activities are in helping the company respond to the SEC investigation and the Department of Justice investigation. And that is what they are doing, and they are working at that—as far as I know, they are working at that quite diligently.

Ms. DEGETTE. And I know you folks have been trying to be cooperative with this committee. To the best of his legal ability, will you make Mr. Baer and his team available to us for future investigation?

Mr. SHAFFER. Well, I thank you, Congresswoman, for the recognition that we have tried to be helpful. We have, and we will continue to be, obviously. And I see no reason that we couldn't make people available, if that is what is needed.

Ms. DEGETTE. Including Mr. Baer, this person who is heading up the investigation?

Mr. SHAFFER. Well, I can check and see very quickly—it won't take me long—and let you know.

Ms. DEGETTE. Great. Thank you very much.

Mr. SHAFFER. You are very welcome.

Mr. GREENWOOD. Thank you.

Finally, and we are just about finished here, Mr. Hellman had raised concerns back in October 2001 that there were few consequences for cutting corners. The question that I have and would ask any of you to respond who would like to is: have there, in fact, as you have gone forward and gotten into these investigations—have there been repercussions or reprimands or new policies put in place, so that there are consequences for cutting corners, for being engaged in some of the conduct that this committee has found to be so questionable? Anyone who wants to respond.

Mr. NACCHIO. I would like to respond for the time before I left. In that fourth quarter or third quarter, somewhere in that period

of time, we did find people violating certain things, and we thought violating the law.

Mr. GREENWOOD. Such as?

Mr. NACCHIO. Passing proprietary information to investment banks who were passing it to hedge fund managers. We passed it to the SEC. We passed it to our internal security, to the Department of Justice. People were fired, and I think people were prosecuted.

So when we found things, we stepped up to it. We found—when we found it, when we knew that—the company can provide evidence of what these cases are. So I can tell you, I didn't spend my whole day trying to be an ethics cop. I had a lot to do as a CEO. I also was not deaf to what my board was telling me when they told it.

But we tried, as best we could in an economy that was getting tougher and tougher, but there are clear cases where we found information through our cyber techniques and others, that were passed on, not just internally in terms of reprimands, but dismissals, law enforcement authorities, other things.

Mr. GREENWOOD. Anyone else care to respond to that?

Mr. SHAFFER. I would like to make a response, Mr. Chairman.

Mr. GREENWOOD. Sure.

Mr. SHAFFER. Since Dick Notebaert's arrival and my arrival shortly thereafter, Dick has addressed the area of culture directly. We have made it very clear that Qwest is to operate with an open culture. People are supposed to be solicited for their views. Everything will be done in a transparent manner.

And in order to put a little bit of teeth into those words, Dick has had probably every 15 days a company-wide review where people can call in and ask questions. Any questions are good. I myself have communicated with my finance staff, entire staff, in such a call also. We also have meetings. Always trying to instill the idea that a little bit of common sense will usually guide you pretty well.

And if you have a question about it, you have to have an environment that allows people to ask that question, to not accept an answer if they don't believe it is the right answer. And that is the culture that is being installed right now.

We have had disciplinary actions since my arrival at the company for activities that were not consistent with what we believe was the Qwest Code of Conduct, nor to the high standards that both Dick and I will insist that the company adheres to. So, yes, there has been, and hopefully we will not have to do it in the future, because hopefully we don't have a reason to do it. But if there is something that is wrong, we will address it directly, we will take corrective action, and it will not be long to take. It will be quick and correct.

Mr. GREENWOOD. Any other responses? Mr. Hellman?

Mr. HELLMAN. Yes, I would like to respond. Have there been consequences? In the current year, we have a new auditor. We have a new CEO. We have a new CFO. We have added 25 percent to the staffing of our internal audit department. We have a complete controls review underway by KPMG. We have changed the reporting of finance personnel to the CFO rather than to line management.

We have instituted routine executive sessions of the board of directors. We have added additional resources, budget if you will, to the audit committee. We have increased disclosure and transparency. All of those actions have been directed by the board of directors.

So while Oren was speaking about management, I wanted to make sure that the board had a voice. Those are consequences.

With regard to your, Mr. Chairman, if you will, frustration on the process of the investigation, I sense that, and I share that. The investigation started in February. We were told that it would initially be completed in April. And the scope of the investigation, because of oversight by the SEC, Department of Justice, this committee, other committees, has expanded.

Clearly, we have been responsive. We have been cooperative. We have also been focused first on the accounting issue. That accounting issue, as Mr. Shaffer said earlier in his testimony, should be complete in a couple of weeks. At that point, that investigation is not over. That investigation is ongoing, and that investigation will look to whether there was any personal responsibility.

And I think that is the essence of your question, sir. We are not there yet. We are working on it.

Mr. GREENWOOD. Thank you. Anyone else?

I want to thank Mr. Hellman, Mr. Shaffer, Mr. Mohebbi, Mr. Nacchio, for being here. We have asked you a lot of difficult questions. It is not because we got up cranky this morning. It is because over the past year we have seen a lot of Americans lose an awful lot of money, jobs, 401(k)s. There has been an awful lot of pain caused by some of the conduct of corporate Americans.

It is our job to understand exactly how that happened and probe as deeply as we can. Our staff does a spectacular job, I think, in getting to—into the details of the company, and we thank you for helping us with our investigation.

The hearing is adjourned.

[Whereupon, at 4:56 p.m., the subcommittee was adjourned.]

[Additional material submitted for the record follows:]

| Global Crossing |   |           |
|-----------------|---|-----------|
| 1               | Office of the Chair Minutes- discussion of quarter numbers  | 2/26/2001 |
| 2               | Management Meeting minutes- discussion of recurring service revenue   | 3/5/2001  |
| 3               | Email from Jeff Cohen to Joggerst and Gorton about 360 and trying to win over their customers because of 360's financial situation  | 3/7/2001  |
| 4               | Management Meeting minutes- discussion of quarter revenue   | 3/19/2001 |
| 5               | Minutes of executive committee meeting where approve 360 transaction  | 3/30/2001 |
| 6               | Management meeting minutes- discussion of first quarter results   | 4/2/2001  |
| 7               | Results of Operations Report  | 4/5/2001  |
| 8               | Management meeting minutes- discussion of negative recurring service EBITDA for 1Q  | 4/9/2001  |
| 9               | Pro Forma Press Release for First Quarter   | 5/9/2001  |
| 10              | Management meeting minutes- discussion of reciprocal deals  | 4/16/2001 |
| 11              | Management meeting minutes- discussion of how to run business with revenue off  | 4/23/2001 |
| 12              | "Narrowing the Gap" memo by Joe Clayton on North American budget  | 5/2/2001  |
| 13              | Transcript of First Quarter Earnings Release Conference Call  | 5/10/2001 |
| 14              | Email from Dan Cohrs about debt covenants and capacity sales  | 5/17/2001 |
| 15              | Office of the Chair Minutes- discussion of quarter numbers  | 5/16/2001 |
| 16              | "Recurring revenue trend" memo from Joe Clayton   | 5/22/2001 |
| 17              | Email between Gorton and Casey about sales compensation for reciprocal deals. Casey: "If we don't get these deals, we miss our quarters"                                  | 6/1/2001  |
| 18              | Management Meeting Minutes- discussion of second quarter sales- "100M off budget"   | 6/4/2001  |
| 19              | Minutes of Board of Directors Meeting where Casey announces Perrone's investigation and Gorton announces that he shut the window for inside trading                       | 6/13/2001 |
| 20              | Memo from Leo Hindery suggesting that Global Crossing try to "sell ourselves quickly to whichever of the six possible acquirors offer our shareholders the highest value" | 6/5/2000  |

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|----|---|-----------|
| 21 | Email to Dullabh and Perrone about the company needing additional funding for the year. Says Perrone and Cohrs have concluded additional funding may be required.         | 1/8/2001  |
| 22 | Wright email to Joggerst suggesting Walsh email network team and tell them will have to use capex so can meet street expectations   | 3/9/2001  |
| 23 | Simpson Thacher and Bartlett memo on risks of 360 deal  | 3/23/2001 |
| 24 | Email chain relating to Simpson Thacher's drafting the 360 deal   | 3/27/2001 |
| 25 | Email exchange between Legere and Winnick about SingTel   | 5/2/2001  |
| 26 | Draft of first quarter 2001 pro forma   | 5/8/2001  |
| 27 | Walsh's application for participation in the Senior Executive Guarantee Program asking for \$7.5 M of credit support  | 5/24/2001 |
| 28 | Series of emails discussing Walsh's application for guarantee of \$7.5 M. Also contains Walsh email where he states intent to "collar of sell approximately 500,000 ASAP" | 5/29/2001 |
| 29 | Email from Walsh to Casey discussing his margin loan and asking if the company can cover a two-week one million dollar note   | 5/30/2001 |
| 30 | The Quarter "All Hands on Deck"- Walsh asks for assistance on an update for Quarter for Winnick and Cook  | 6/6/2001  |
| 31 | Email between Walsh and Casey about discussions on potential deal with Enron and Jeff Skilling  | 6/11/2001 |
| 32 | Email from Gorton to Winnick about getting a list of target customers for Board members to help on (at Winnick's suggestion)  | 6/19/2001 |
| 33 | Walsh's memo and agenda for Quarter Sales Review for "Closing the Gap"  | 6/22/2001 |
| 34 | Email from Joggerst about "super sizing" deals  | 6/25/2001 |
| 35 | Email from Wright indicating Walsh and Greg Casey (Qwest) will get a gentleman's agreement on pricing for portability   | 6/25/2001 |
| 36 | Email from Fitzpatrick to Joggerst with concerns about European purchase. "I feel like we are putting our names and careers on the line"                                  | 6/28/2001 |

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| 37 | Calendar reminder for conference call between Winnick, Cohrs, Walsh, Gorton, Casey and Qwest  | 6/28/2001 |
| 38 | Management meeting minutes- discussion of "what to say about guidance for rest of year? What to say about reciprocal deals?"  | 7/9/2001  |
| 39 | End of second quarter funnel emailed to Casey and Cohrs   | 7/29/2001 |
| 40 | Email from Cohrs with link to story about Qwest accounting for swaps. "The bad news is this is raising visibility on the swap issue."   | 8/3/2001  |
| 41 | Letter to Jim Gorton from Roy Olfoson where he raises his concerns about Global Crossing's accounting   | 8/6/2001  |
| 42 | Email chain on "big deal battle plan" suggested Winnick was assisting with Worldcom account   | 8/13/2001 |
| 43 | Urgent email from Joggerst stating Winnick, Casey, and Walsh have asked carrier sales and corp. dev. to work together to come up with "creative deals" for 3Q and 4Q  | 8/14/2001 |
| 44 | Email from Wright to Walsh discussing her concerns with IRU targets   | 8/30/2000 |
| 45 | Chart outlining Top Ten Customers for IRU sales in Q1 and Q2 2001.  | 8/31/2001 |
| 46 | Email chain discussing 3Q Enron deal  | 9/4/2001  |
| 47 | Email from Fitzpatrick to Walsh indicating have \$600M gap in 3Q IRU deals  | 9/6/2001  |
| 48 | Email from Joggerst to Yaremko discussing scenarios of how to get 3Q done and how need Yaremko's input for revenue recognition  | 9/10/2001 |
| 49 | Email from Walsh to Perrone asking for help because Andersen's refusal to remove restrictions endangers C&W deal  | 9/12/2000 |
| 50 | Email chain between sales and product management. Joggerst: "There are a string of emails that will effectively KILL the Qwest, Dishnet and Tycom deals... These deals represent ~\$450M of our attempt to get \$675M in revenue" | 9/26/2001 |
| 51 | Email from Joggerst to Walsh, Casey, and Gorton indicating Perrone will call national partners of Andersen and Price Waterhouse to discuss issues they are having with deal with Tycom and Dishnet                                | 9/26/2001 |

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| 52           | Email from Fitzpatrick about Qwest deal in Scandinavia "Do not mask a business plan to justify an ugly deal" and Joggerst's response: "I can't work like this" | 9/27/2001  |
| 53           | Purchased asset summary from Grivner study   | 2/22/2002  |
| 54           | Casey letter to Winnick about Ken Lay  |            |
| 55           | Management Meeting Minutes   | 2/26/2001  |
| 56           | First quarter funnel   | 3/16/2001  |
| 57           | Global Crossing Public Hearing in Rochester  | 3/9/2002   |
| 58           | Business Wire article re: Global Crossing projects continued strong growth for 2001  | 1/8/2001   |
| 59           | Business Wire article re: Global Crossing completes core worldwide network   | 6/21/2001  |
| 60           | Business Wire article re: Global Crossing's pro forma increase form 1Q 2000  | 5/9/2001   |
| 61           | Business Wire article re: Global Crossing report on GX pro forma for 2000  | 2/14/2001  |
| <b>Qwest</b> |  |            |
| 62           | Mohebbi email re: misrouting IRU   | 6/13/2000  |
| 63           | Audit Committee minutes and AA attachment discussing IRUs  | 10/4/2000  |
| 64           | Mohebbi C&W email; 10/29/01 audit committee minutes  | 12/29/2000 |
| 65           | Mohebbi email re: "we will eat all of this"  | 2/9/2001   |
| 66           | Mohebbi email chain re: CFO says no more swaps   | 5/10/2001  |
| 67           | Mohebbi email re: creative contractual wording   | 6/11/2001  |
| 68           | Mohebbi email to Casey regarding "covering my holes"   | 6/20/2001  |
| 69           | Szeliga memo   | 8/2/2001   |
| 70           | Mohebbi email re: one-pager for every deal   | 9/25/2001  |
| 71           | CEO evaluation reports (no minutes)  | 9/13/2001  |
| 72           | Mohebbi "help" email   | 9/28/2001  |
| 73           | Mohebbi C&W escalation email   | 10/1/2001  |
| 74           | Mohebbi C&W email re: Arthur Andersen denies for 3Q  | 10/11/2001 |
| 75           | Mohebbi email re: "do what we need and let accountants make up their mind"   | 10/19/2001 |
| 76           | 2001 Audit Committee Meeting Minutes   | 10/24/2001 |



|                  |  |            |
|------------------|--|------------|
| 77               | 2001 Audit Committee Meeting Minutes and Andersen presentation regarding maximum risk assessment | 10/24/2001 |
| 78               | Hellman email to Stephens regarding Notes  | 10/25/2001 |
| 79               | Hellman email to Stephens regarding "our IRU position"   | 2/10/2002  |
| 80               | McGrath email to Gordon Martin with Graham Wallace letter included                               | 2/19/2002  |
| 81               | Napoli letter forwarded to P. Anschutz   | 3/5/2002   |
| 82               | Mohebbi emails to Hoagland re: C&W 109 meeting notes   | 3/8/2002   |
| 83               | Mark Iwan forward of Qwest investigation   | 3/29/2002  |
| 84               | Hellman email to Stephens re: previous Stephens email  | 4/10/2002  |
| 85               | Anonymous letter forwarded to P. Anschutz re: Qwest breaking the law                             | 5/6/2002   |
| 86               | Morgan Stanley report and related press pieces   | 6/21/2001  |
| <b>Additions</b> |  |            |
| 87               | Perrone Report for Casey   | 5/9/2001   |
| 88               | Perrone Report for Casey   | 6/1/2001   |

OTC mtg. 2/26

get a copy  
of the  
document  
to  
David  
Hind

① - Discussion of numbers coming in low for Q.

- IAU business needs to be bigger deals & strategic.
- funnel of existing opp. brings us 200M short of Q target.
- commercial revenue basis

How do you reconcile the reality of our story vs. others?

Operational Support - hire consultant to outline tasks

→ 2000 breakout of legal expenses

GW wants to know {  
Simpson?  
Preston?  
Swidler?  
Skadden?  
→ FRS (Finkler)

→ Walsh looking for EVP of Sales.

↳ is Company looking?

→ David shld get together w/ Rosalie Zalis & talk. re: Media & Entertainment.

David? → Linda Frazier - to help w/ BBC deal?

x

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→ Paul Pluschke  
 &

→ Weekly Marketing meeting call  
 Geo would like to participate in these. In person if possible.  
 What time, where are meetings.

\* → set a meeting w/ David, Geo, TC & LMC  
 Nancy in New York.  
 Pat

& → Get Geo copies of Bandwidth Trading articles  
 of late (2)

IDEA → Hire John Maja as a consultant in U.K.? for MNCs?  
 → Peter Knight?  
 → Others? Asia?  
 → fee per month plus commission?  
 → talk to David @ it?

IDEA Combine Product Mgmt & Product Development?  
 - move Brian Fink under weekly.

FOR ALL \* Need target dates for initiatives.

ADD → Real Estate Section → get copy of plan from R.

Ken [ → Ken - Safe Harbor & logistics, intro LMC.  
 → LMC to introduce G.W. & comments.  
     ↳ focus on team, stability of team work  
Tomb ← ↳ get past intro's used for G.W.  
           ↳ bullet points.

~~to be in paper~~  
~~to be in paper~~

Line → ~~to be in paper independent of comp committee~~

? - What will BOD look like in June?

David  
 Seanlon  
 Streed

? - Reinforce policy that no one  
 is to go BOD's in Asia or GE.  
     ↳ out

- What's standard in industry? Can exec key  
 options?

\* - Make sure Bloomberg reflects new BOD  
 # members. - piecemeal removing old  
 ones so no news story picked up.

Jim \* - Use Bill's Cohen's law firm.  
           Bob?

Mgmt mtg

- Solutions

- bring in consulting firm specialist in IT OSS systems to make 31.000 1.600 recommendations

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are understood.

- then developed into company wide set of requirements.

- then give to another company outsource (ie. Model) to "bute force" installation. *or Expense*

David W. \* Team for OSS Implementation  
Bill A. ie: Colleen  
Tingler  
Mason

Sales update -

- \$161 M done

- \$ 30 Percent deal done

191 Subtotal

165 Quest deal looks good to close

356 Subtotal

130 Teleglobe ?

25 IDT ?

70 Singtel ?

50 CTW ?

(Tingler)

} business cases coming  
because have  
complications. (Pittsburgh)

Recurring Service Revenue?

- it is growing, but not as fast as we  
hoped. some provisioning issues.

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Worldwide Tunnel Report?

- \* ... G Frank Madonna has it.
- ... G quantify 4th Q 2000 + 1st Q 2001.

#### Strategic

Greenwich Technology Partners

- 400 person consulting firm. (keep about 25%)
- network engineering + design
- need them to facilitate Swift etc?
- competing bid from Juniper for part of the company @ \$150M + bid expires next week

#### Corp. Development

OAO

BRIDGE

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**From:** Cohen, Jeff  
**To:** Joggerst, Patrick; Mercogliano, John  
**CC:** Gorton, Jim  
**BCC:**  
**Subject:**  
**Date:** 3/7/2001 12:40:03 PM  
**Attachments:**

---

given 360's current cash position; 500mm in cash vs. over 800mm in current liabilities. their stock price and revised guidance, and the statements that they would only pay their suppliers when they make sales, i think its time to make a run at the customers we lost to them, especialy france telecom. let's be careful how we do it and stick to public facts. i would worry if i was a customer of theirs at this moment.



*Management*  
**Executive Committee Meeting**  
Monday, March 19, 2001  
Action Items

1. Budget Line Item Analysis – Dan Cohrs, Joe Perrone
  - Need budget broken down line-by-line item and by month.
  - Need to show both guidance and actual budget.
  - Needed ASAP
2. Funnel List – David Walsh
  - Need to quantify specific contracts and revenues for “funnel” growth.
  - David assured “product guys” would have this in about a week.
3. Coordinate OSS/IT meetings – Wally Dawson, Bill Adiletta
  - Need to be sure both the systems and network departments are coordinated on what is needed and what is possible. Bill mentioned meetings scheduled for this purpose, however Wally unaware of dates.
  - Need to coordinate on business requirements, value proposition of system to customer and to company, and metrics of measurement for system.

In Attendance:

|               |                    |             |
|---------------|--------------------|-------------|
| Tom Casey     | Carl Grivner       | Sherri Cook |
| Lod Cook      | Joe Clayton        |             |
| David Walsh   | Jose Rios          |             |
| Jim Gorton    | Bill Adiletta      |             |
| Dan Cohrs     | Wally Dawson       |             |
| John Comparin | Stephen Riesenfeld |             |

Absent:

Joe Perrone

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~~Meeting~~ <sup>mtg.</sup> Meeting 3/19

Attending:

On Phone: 1. Rod Cook 10 Sherri Cook  
 2. David Walsh 11. Wally Dawson  
 3. Jim Gorton  
 4. Dan Cohrs  
 5. Dill Adiletta  
 6. Joe Clayton  
 7. Antonio Pias  
 8. Stephen Reizenfeld  
 9. Carl Griener

In Person 1. Tom Casey  
 2. John Comperin

Absent 1. Joe Perrone - vacation  
 2. ~~Wally Dawson~~

Q Review

- Inventory effect.
- Cap Ex problem

Cost & Access

- budgets assume COA savings, so need to get moving.
- Resource fight
  - ↳ exchanging sources, but reducing headcount.

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...OSS -

Revenue → Even if we get 525 of sales, we are  
@ 400m off in revenue

Jol C → off about 29M - 57MNE<sup>38 financial</sup>  
Carl B → up @ 129M.  
Jose R →

→ but are below budget @ 10m on SG+A.  
5m better on Cost of Access?  
17m worse on operating exp.

→ 11m off guidance on revenue  
2m off " on operating exp.

32m IRU guidance

Jose says aiming for 49m.

10m → Centennial deal approved by  
their BOD last Thursday.

10m check due 3/26.

23m → Imperia (Contract value = 100m)

↳ Telecom Italia - 7.2m.

BudgetDan +  
Joe.

- \* - need to get it broken down line by line item and monthly, both as to budget and as to guidance.

Discussion of shortfall on Services Revenue.

- \$100m shortfall so far?!
- Offset by good story on funnel?
  - ↳ need to quantify specific @'s and revenues
  - ↳ David W. says "product guys" should have this in about a week; growth trajectories.

DAVID

OSS

- hired Guide.com
- we will not produce a usable set of systems until we understand what the customer needs.

Bill

Adilath

- bus requirements
- value prop. to cust? to company?
- metrics of measurement

Wally

- make sure OSS/IT people are in agreement w/ what is needed and what we can do

Nortal - looking for partner  
 - not comfortable that Nortal  
 can deliver OSS integration  
 capability.

Bill Q. Merlin  
 ↳ electronic sales order process.  
 ↳ makes a "virtual" order entry  
 ↳

} stepped out Bill cont. talking about  
 release dates of new  
 systems.

John Comp.  
 - distribution of stock opt. 3/8  
 out to all managers.

L.A. + C. - Jose  
 - budget - uphill battle, but can  
 meet.

MINUTES of the Meeting of the Executive  
Committee of the Board of Directors of  
Global Crossing Ltd., held via telephone  
on the 30<sup>th</sup> day of March, 2001 at 4:00 p.m.,  
Pacific Time.

Present:

Messrs. Gary Winnick, Chairman  
Thomas J. Casey  
William E. Conway, Jr.

Absent:

Mr. Lodwick M. Cook

In attendance:

Messrs. James Gorton  
S. Wallace Dawson  
Patrick Joggerst  
Mitchell Sussis  
David Walsh

Mr. Walsh described the proposed Centennial transaction, explaining that the transaction essentially represents an extension of Mid-Atlantic Crossing to Puerto Rico and the Dominican Republic, with Centennial serving as the anchor tenant. Discussion ensued regarding the timing of the network build, the assumptions used in the financial model, potential competitors in the region and the creditworthiness of Centennial. Upon motion duly made, seconded and unanimously carried by those members of the Committee present, the proposed Centennial transaction was approved in substantially the form presented at the meeting.

Mr. Joggerst described the proposed transaction with 360networks, explaining that the transaction would mitigate against a potential shortfall in Atlantic capacity. Mr. Joggerst described some of the advantages of the proposed transaction, including route diversity, low cost and faster time to market. Discussion ensued.

Mr. Gorton led a detailed discussion of the risks associated with 360networks' financial instability. Mr. Gorton described the measures the Company proposes to take to mitigate those risks, including through the allocation of \$100 million of the purchase price to existing North American capacity that can be ported back to 360networks when 360networks provisions the full amount of Atlantic capacity being purchased.

GX-HEC-35024

Messrs. Dawson, Gorton, Joggerst, Sussis and Walsh left the meeting, after which the Committee met in executive session. Discussion ensued, after which the proposed 360networks transaction was approved in substantially the form presented at the meeting

There being no further business to come before the meeting, it was duly adjourned.

---

Gary Winnick  
Chairman

---

Mitchell Sussis  
Secretary

1/2 mmm

- |                |                   |
|----------------|-------------------|
| 1. Tom         | 10. Jim           |
| 2. John C.     | 11. Dan           |
| 3. Joe C.      | 12. Antonio Rios  |
| 4. Lod         | 13. Perrone       |
| 5. Gary Cohen  | <del>Barrow</del> |
| 6. John Legere | 14. Bill Adiletta |
| 7. Wally       |                   |
| 8. Carl G.     |                   |
| 9. David W.    |                   |

1st Q end

- 565 - 570 m
- Letter from Italian banks due @ 11:30
- So will have @ 4:30 - 4:35 adjusted EBITDA which is bottom end of min. guidelines.
- \* → Cannot continue running the business w/ EAV sales to counter losses on current services. Where is negative EBITDA coming from?
- Reminder - no one to talk @ performance until we get our numbers published. Be careful. Do not comment on the market either. Formal earnings release will be in middle May. "We remain comfortable with our guidance"
- Will be looking again at the budgets in month of April.
- BOB mtg on April 11th. - need to have some sense of budget etc. by then.

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Roundtable discussion of "Where do you think the business is?"

Joe C. - not enough traction on new verticals.  
 given the economy, believes voice business & carrier business will come back.  
 bankruptcy problems - <sup>GEN</sup> they have had 5 Chapter 11's.

Carl - UK down 42% people - net down of 38%  
 from 12/01/00. - Still have @150 to 80  
 in next few weeks.

Cost of Access plan - working w/ Martino

Joe? part of your debt?   
 ? Virtel owes us @ 25M? - terminates voice.  
 in U.S. (Le mos. worth of voice?)  
 + Jim G. → Jeff Cohen to call Chris Nash?

Rico - report on region.

M106.5 adj. EBITDA - 80% over 59M target.

John L. - report on A31A

Perrone - confirms negative service EBITDA  
 is double what budget predicted  
 - 10K was filed this weekend

Jim - no comments.

John L. - next week will have 1<sup>st</sup> report of headcount  
 by function & by region.

**MANAGEMENT MEETING**  
Monday, April 02, 2001  
Minutes

| Title/Department     | Name          | Attended | Absent/ Reason |
|----------------------|---------------|----------|----------------|
| CEO & Meeting Chair  | Tom Casey     | ✓        |                |
| OTC                  | Lod Cook      | ✓        |                |
| President & COO      | David Walsh   | ✓        |                |
| Global Solutions     | Gary Cohen    | ✓        |                |
| Legal                | Jim Gorton    | ✓        |                |
| Finance              | Dan Cohrs     | ✓        |                |
| Accounting           | Joe Perrone   | ✓        |                |
| Human Resources      | John Comparin | ✓        |                |
| North America        | Joe Clayton   | ✓        |                |
| Europe               | Carl Grivner  | ✓        |                |
| South America        | Jose Rios     | ✓        |                |
| Operations           | Wally Dawson  | ✓        |                |
| Information Systems  | Bill Adiletta | ✓        |                |
| Asia Global Crossing | John Legere   | ✓        |                |
| Support              | Sherri Cook   | ✓        |                |

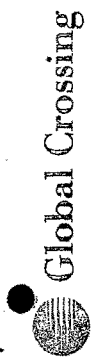
**Discussion Items:**

- 1) 1<sup>st</sup> Quarter Results - Estimated at \$565M to \$570M of revenue; equates to \$430M to \$435M of adjusted EBITDA. This is bottom end of minimum guidelines. Cannot continue running the business with IRU sales forced to cover for such large losses on recurring services. Joe Perrone to investigate specific causes of negative EBITDA and brief Tom on causes. We will then create an action plan to correct.
- 2) Disclosure Caution - All management are reminded that no one is to talk about performance of 1<sup>st</sup> Q until the numbers are appropriately published. All are also cautioned about making any statements regarding the market. Formal earnings release is expected mid-May. Proper response to any inquiry is that, "We remain comfortable with our guidance."
- 3) Budgets - Tom asked all management on call to again review their budgets with a hard look to negative EBITDA issues. Board meeting on April 11<sup>th</sup>, so budget issues should be addressed immediately.
- 4) Roundtable Discussion - "Where do you think the business is?"
  - There is not enough traction on the new verticals.
  - Given the economy, voice business and carrier business will come back.
  - Feeling pressure of customer bankruptcy problems. Discussion of Viatel debt to GX of \$25M for termination of voice in US. (Gorton to follow up with Nash.) GCNA has had 5 customers file for Chapter 11 so far this year.

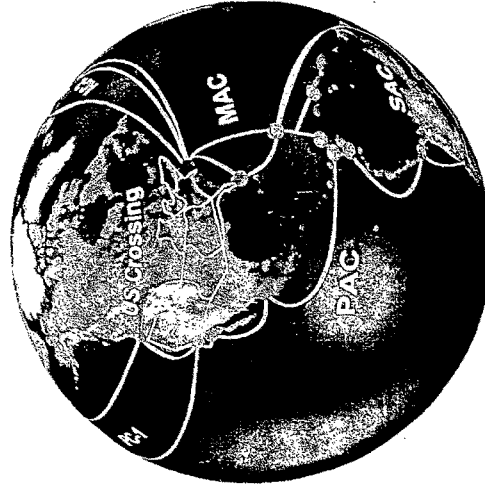
5) Region/Department Reports

- UK down 427 people, net down of 383 from 12/01/00. Still have @150 to go in next few weeks.
- South America reports \$106.5M adjusted EBITDA which is @ 80% over \$59M target.
- Finance reports that Form 10K was filed this past weekend.

6) OSS - Inventory System installation scheduled for this week in North America.



**One Planet.  
One Network.**



*2001 Results of Operations*

April 5, 2001



Agenda

- Review and discuss Q1, Q2 and full year forecasts.
- Review and evaluate various initiatives to improve business performance (consider Benchmarks).
- Q1 Press Release - Preliminary discussion of guidance and disclosures.



Global Crossing

## Q2 Budget/Guidance/Estimate Comparison

P&L Summary - Continuing Operations  
(\$M)

Q2

|                              | Budget | Current<br>Guidance | Finance<br>Estimate | Fav/(Unf.) \$<br>(Est.-Guidance) | Q1<br>Estimate | % Growth<br>(Q2/Q1) |
|------------------------------|--------|---------------------|---------------------|----------------------------------|----------------|---------------------|
| Recurring Service Revenue    | 1,205  | 1,234               | 1,122               | (112)                            | 1,000          | 12%                 |
| Cost of Access/Cost of Sales | 615    | 601                 | 615                 | (14)                             | 543            | 13%                 |
| Margin                       | 590    | 633                 | 507                 | (126)                            | 458            | 11%                 |
| % Margin                     | 49%    | 51%                 | 45%                 |                                  | 46%            |                     |
| Other Operating Expenses     | 682    | 613                 | 647                 | (34)                             | 612            | 6%                  |
| % Revenue                    | 57%    | 50%                 | 58%                 |                                  | 61%            |                     |
| Recurring Service EBITDA     | (92)   | 20                  | (140)               | (160)                            | (154)          | -9%                 |
| IRUs                         | 669    | 480                 | 466                 | (14)                             | 560            | -17%                |
| Recurring Adjusted EBITDA    | 577    | 500                 | 326                 | (174)                            | 406            | -20%                |
| Cash Revenue                 | 1,873  | 1,714               | 1,588               | (126)                            | 1,560          | 2%                  |

3



## Global Crossing

### 2001 Budget/Guidance/Estimate Comparison

P&L Summary - Continuing Operations  
(\$M)

|                              | 2001   |                     |                               | 2000<br>Actual | % Growth<br>(Est/Act.) |
|------------------------------|--------|---------------------|-------------------------------|----------------|------------------------|
|                              | Budget | Current<br>Guidance | Finance<br>Estimate           |                |                        |
|                              |        |                     | Fav/(Unf.) \$<br>(Est.-Budg.) |                |                        |
| Recurring Service Revenue    | 5,501  | 5,489               | 4,926                         | (575)          | 44%                    |
| Cost of Access/Cost of Sales | 2,701  | 2,718               | 2,699                         | 2              | 45%                    |
| Margin                       |        |                     |                               |                |                        |
| % Margin                     | 2,801  | 2,781               | 2,228                         | (573)          | 44%                    |
|                              | 51%    | 51%                 | 45%                           |                |                        |
| Other Operating Expenses     | 2,812  | 2,481               | 2,759                         | 54             | 51%                    |
| % Revenue                    | 51%    | 45%                 | 56%                           |                |                        |
| Recurring Service EBITDA     | (11)   | 300                 | (531)                         | (520)          | -39%                   |
| IRUs                         | 2,262  | 1,800               | 1,800                         | (462)          | 3%                     |
| Recurring Adjusted EBITDA    | 2,250  | 2,100               | 1,269                         | (982)          | -14%                   |
| Cash Revenue                 | 7,763  | 7,299               | 6,726                         | (1,037)        | 30%                    |
| Capital                      | 4,600  |                     | 5,164                         | (564)          |                        |



Global Crossing

2001 Estimated Service Revenue Forecast Attribution

|   | Qtr 2        |             | Full Year    |              |
|---|--------------|-------------|--------------|--------------|
|   | Revenue      | Margin      | Revenue      | Margin       |
| <b>Global Crossing Service Revenue Budget</b>                                       |              |             |              |              |
| Commercial Data   |              |             |              |              |
| Sales Force Hiring Impacting In-Year Revenue Forecast                               | 1,205        | 580         | 5,501        | 2,801        |
| Product Gap Issues (i.e. Non-NA Sub E1, VPN Deployment)                             | (16)         | (11)        | (172)        | (146)        |
| Network Deployment (Leases - Sub STM-1; IP - Asia & Latin America)                  |              |             |              |              |
| Global Solutions  |              |             |              |              |
| In-Year Impact of Identified Opportunities Yields Negative Variance to Plan         | (25)         | (9)         | (205)        | (79)         |
| Carrier Leases  |              |             |              |              |
| Funnel Beginning to Grow, However, Rules of 78 Impact Particularly in Latin America | (50)         | (39)        | (141)        | (120)        |
| Commercial Voice  |              |             |              |              |
| Pricing - LD Price Erosion and Selling Up-Market                                    | (4)          | (2)         | (23)         | (13)         |
| Other (Global Marine, Carrier & Consumer Voice and Carrier Data & IP)               | 12           | 4           | (34)         | (25)         |
| Other Access Impacts  | 0            | (25)        | 0            | (190)        |
| <b>Variance Subtotal</b>  | <b>(83)</b>  | <b>(83)</b> | <b>(575)</b> | <b>(573)</b> |
| <b>Estimated Service Revenue Forecast</b>   | <b>1,122</b> | <b>507</b>  | <b>4,926</b> | <b>2,228</b> |





# 2001 Estimated Cash Revenue Forecast Attribution By Region - Qtr 2 & Full Year

| Qtr 2            | Cash Revenue Budget | IRU Inherent Demand | Commercial Data | Global Solutions | Carrier Losses | Commercial Voice | Other * | Cash Revenue Forecast | Total Variance |
|------------------|---------------------|---------------------|-----------------|------------------|----------------|------------------|---------|-----------------------|----------------|
| Total            | 1,873               | (202)               | (16)            | (25)             | (50)           | (4)              | 12      | 1,588                 | (285)          |
| North America    | 865                 | (15)                | (1)             | 0                | (18)           | (3)              | 19      | 879                   | (17)           |
| Europe           | 523                 | (190)               | 6               | 0                | (15)           | (1)              | 6       | 317                   | (206)          |
| Asia             | 47                  | 12                  | (3)             | 0                | 0              | 0                | 5       | 62                    | 15             |
| Latin America    | 85                  | (10)                | (1)             | 0                | (17)           | 0                | 0       | 57                    | (28)           |
| WWNet            | 58                  | 0                   | (18)            | 0                | 0              | (1)              | 0       | 39                    | (19)           |
| IPC              | 71                  | 0                   | 0               | 0                | 0              | 0                | (0)     | 71                    | (0)            |
| Global Solutions | 39                  | 0                   | 0               | (25)             | 0              | 0                | 0       | 15                    | (25)           |
| Global Marine    | 154                 | 0                   | 0               | 0                | 0              | 0                | (6)     | 148                   | (6)            |

| Full Year        | Cash Revenue Budget | IRU Inherent Demand | Commercial Data | Global Solutions | Carrier Losses | Commercial Voice | Other * | Cash Revenue Forecast | Total Variance |
|------------------|---------------------|---------------------|-----------------|------------------|----------------|------------------|---------|-----------------------|----------------|
| Total            | 7,763               | (462)               | (172)           | (205)            | (141)          | (23)             | (34)    | 6,727                 | (1,036)        |
| North America    | 3,924               | (215)               | (14)            | 0                | (46)           | (15)             | 5       | 3,639                 | (284)          |
| Europe           | 1,607               | (303)               | (30)            | 0                | (34)           | (4)              | (27)    | 1,209                 | (398)          |
| Asia             | 322                 | 71                  | (28)            | 0                | 2              | 0                | 14      | 384                   | 62             |
| Latin America    | 371                 | (17)                | 4               | 0                | (62)           | 0                | 0       | 295                   | (75)           |
| WWNet            | 294                 | 0                   | (106)           | 0                | 0              | (4)              | 0       | 174                   | (110)          |
| IPC              | 300                 | 0                   | 0               | 0                | 0              | 0                | 0       | 300                   | 0              |
| Global Solutions | 330                 | 0                   | 0               | (205)            | 0              | 0                | 0       | 125                   | (205)          |
| Global Marine    | 626                 | 0                   | 0               | 0                | 0              | 0                | (28)    | 600                   | (26)           |

\* Includes Global Marine, Carrier & Consumer Voice, Carrier Data & IP and O&M



## Global Crossing

### 2001 Product Revenue Risks

| Product           | Category                          | Description  | Action Item  | Owners  |
|-------------------|-----------------------------------|--|--|---|
| Capacity Products | More Dramatic "Fire Sale" Pricing | Predatory Pricing in Capital Constrained Environment Driving Irrational Market Pricing (ie Trading off Future Margins for Short term benefit)  | Forward pricing: Forward Price curves need to be developed now and sales folks be trained on how they can convince customers to make the purchase decision earlier than their normal lead times;   | Tingley (sales training) & (forward price curves) |
| Capacity Products | Network Capacity and Process      | Current network build-out and/or upgrades are not RFS early enough to satisfy strong Wave demand (particularly on MAC and SAC); Process and Technology to Deliver 2.5 and 10G Waves Globally (Provisioning); | Ensure future Swap deals help address Capacity shortages (e.g. like the 300 deal addressing AC-1 shortage). A Continual Refresh of "Wish" List of Capacity Requirements; Decisions on Network Architecture (ie Nortel 4+1 Combiners) and Establish Individual Co | Coghill (Architecture) and Mulligan (Ops)         |
| Data Products     | Market Penetration                | Salesforce penetration of Asia, Continental Europe & Latin America has not occurred.   | Hire and Train Sales Force & Establish Brand Equity in new regions   | Vertical Leaders/J. Tingley                       |
| Data Products     | Product Development               | MPLS, VPN & Corelink are assumed to be ready to sell in Q3. Delays will severely impact revenue forecast further   | Ensure Current Schedule Maintained; Continual Product Development Reviews on Progress  | B Fink/ J. Tingley                                |
| Data Products     | UK Managed Services               | Assumed Managed Services can maintain full revenue from Q1   | Increase focus on high-growth products (Data Link Direct etc). Ensure billing is 100% correct.   | J. Tingley  |
| Voice Products    | Capital Deployment                | Delays in Voice Capital Deployment and/or potential lack of network resources to engineer and deploy capital globally  | Continual Monitoring of Capital Requirements and Deployment - Suggested BiWeekly Status Calls  | E. Mulligan / J. Tingley                          |
| Voice Products    | Product Development               | Delays in availability of new products (LQR, GDS, IPO, GAVIA and Technology (VoIP)   | Ensure Current Schedule Maintained; Continual Product Development Reviews on Progress  | B Fink/ J. Tingley                                |



## Global Crossing

## 2001 Product Revenue Opportunities

| Product                | Category                           | Description  | Action Item   | Owners  |
|------------------------|------------------------------------|--|---|---|
| Capacity Products      | Swapped Asset/Inventory            | Inventory from Swapped deals selling idle not generating revenue (e.g. the 360 & Quest swaps)                          | Network Architecture Decisions on swapped assets (resell as-is or connect onto GC network) and communicate to Sales accordingly | M Coghill / J Tingley / B Fitzpatrick / P Joggast |
| Capacity Products      | Wave-length Managed Services       | Cross-sell managed WAN (via Giga E and Waves) solutions to retail customers (e.g. Bank of America)                     | Accelerate build out of Metro Rings and roll-out of GigaE product   | B Fink / D Carley                                 |
| Capacity Products/IP   | Bandwidth Trading                  | Trading and Futures on Commoditized Routes   | Execution on Trading Business Plan; Business Plan Developed and being reviewed by Operations Groups                             | P Lacinilla / J Tingley / W Dawson                |
| Capacity/Data Products | Reach                              | Extend Network Reach into new areas. Also establish strategic resale arrangements to penetrate new markets.            | Finish Australia Expansion. Look into establishment of relationship into Eastern Europe and Southern Asia                       | Vertical Leads / J Tingley / W Dawson             |
| Data Products          | Webhosting Resale                  | Leverage Exodus Relationship to Resale Hosting Product   | Value Proposition and Ensure Network Operations in place to Support   | J Tingley / P Plushkoff / W Dawson                |
| Voice Products         | Conferencing Product               | Bundle Conferencing w/ Voice/Data on a Global Basis  | Product Management and Marketing to Evaluate Offer w/ Input from Sales  | J Tingley / B Walsh / Vertical Leads              |
| Voice Products         | Carrier Voice Revenue In Asia      | Potential for Carrier Revenue in Asia  | TBD   | T Higase / J Tingley                              |
| All Products           | Expeditionary clearance of backlog | Build Confidence in Sales Force (particularly Commercial) by a concerted focus on clearing Backlog across all Products | Replay Headcount in Necessary w/ Biweekly calls on Backlog status and aging   | C O'Keefe / J Tingley / E Mulligan                |



Global Crossing

## Accrual Capital Expenditures Risks and Opportunities

| 2000 Actual  |  | \$5,314M                |                    |
|--|--|-------------------------|--------------------|
| 2001 Budget before Roll-over                               |  | 5,066                   | <u>Responsible</u> |
| Realize value of 1Q Capacity Purchases                     |  | 455                     | Walsh / Dawson     |
| Centennial Caribbean Build                                 |  | 100                     | Dawson             |
| Caribbean Crossing (Telcom Italia)                         |  | 0 to 150                | Mercogliano        |
| Europe Network Capacity                                    |  | 100 to 200              | Grivner / Dawson   |
| Europe Construction / AC 2 Back-haul                       |  | 200 to 250              | Grivner / Dawson   |
| Implement Information Systems Strategy                     |  | 100 to 120              | Adileta            |
| Forecast to Budget Variance on existing projects           |  | 20                      | Tingley / Dawson   |
| Alter Global Marine Operating Leases to Capital Leases     |  | 30 to 40                | Cohrs              |
| Achieve capital reductions due to Revenue / Unit Shortfall |  | (350) to (250)          | Tingley / Dawson   |
| Delay Global Marine ship purchase                          |  | (70) to (60)            | Downie             |
| Roll-over to 2002  |  | <u>(600) to (500)</u>   |                    |
| 2 Year Total   |  | <u>10,365 to 10,905</u> |                    |

|      | Company                       | Revenues | COGS | SG&A | D&A | Other Operating |
|------|-------------------------------|----------|------|------|-----|-----------------|
| 2000 | Pro Forma Cash Revenues GX    | 100%     | 36%  | 26%  | 31% | 16%             |
|      | Pro Forma Global Crossing     | 100%     | 48%  | 32%  | 41% | 21%             |
|      | Global Crossing - As reported | 100%     | 49%  | 31%  | 36% | 20%             |
|      | Mean                          | 100%     | 57%  | 37%  | 22% | 6%              |
|      | Median                        | 100%     | 49%  | 29%  | 19% | 3%              |
|      | Min                           | 100%     | 33%  | 5%   | 11% | -6%             |
| 1999 | Max                           | 100%     | 98%  | 97%  | 49% | 20%             |
|      | PF Cash Revenues GX           | 100%     | 37%  | 24%  | 35% | 19%             |
|      | PF Global Crossing            | 100%     | 39%  | 25%  | 36% | 19%             |
|      | Global Crossing - GAAP        | 100%     | 27%  | 26%  | 30% | 18%             |
|      | Mean                          | 100%     | 54%  | 39%  | 18% | 4%              |
|      | Median                        | 100%     | 49%  | 26%  | 17% | 2%              |
|      | Min                           | 100%     | 27%  | 5%   | 1%  | -2%             |
|      | Max                           | 100%     | 88%  | 139% | 44% | 18%             |

| Company                       | Heads   | Revenue Head |
|-------------------------------|---------|--------------|
| Pro Forma Cash Revenues GX    | 13,000  | \$ 409,923   |
| Pro Forma Global Crossing     | 13,000  | \$ 304,462   |
| Global Crossing - As reported | 13,000  | \$ 291,462   |
| WCOM                          | 59,000  | \$ 662,542   |
| AT&T                          | 166,000 | \$ 397,476   |
| Sprint                        | 84,100  | \$ 280,773   |
| Verizon                       | 260,000 | \$ 248,873   |
| Qwest                         | 67,000  | \$ 247,910   |



## Global Crossing

### Action Items

#### Global Solutions

- Sign off on organizational structure and operating plan.
- Finalize business plans and budget.

#### Financial Markets / IXNet

- Aggressive plan to complete integration.
- Executive operations review on April 20th.

#### Verticals

- Ensure elimination of duplicate infrastructure.
- Complete review M&E business plan.
- Immediate re-marketing of purchased capacity.

#### Europe

- Aggressive plan to complete restructuring and integration of UK operations.

#### COA / Real Estate

- Schedule review of action plan and targets for task force.

11



## Global Crossing

### Action Items

#### Headcount

- Further restrict hiring.
- Immediate reduction?
- Finalize incentive strategy.

#### Global Functions

- Re-integrate back in North America.
- Combine functions where possible.
- Resolve OSS initiatives.

#### Operating Expenses

- T&E
  - Set tone from the top.
  - Pre-approval for travel.
- Eliminate consulting fees.

Global Crossing  
2001 Budget  
P&L Reconciliation

| Consolidated             | Board<br>Package | Amortization<br>/ BPOs<br>/ Bad Debt | Global<br>Marine | Product Mix<br>/ Other | Current<br>Budget |
|--------------------------|------------------|--------------------------------------|------------------|------------------------|-------------------|
| (\$Millions)             |                  |                                      |                  |                        |                   |
| Service Revenue          | 5,504            | (0.075)                              | 0.135            | (0.080)                | 5,484             |
| Cost of Sales/Access     | (3,011)          |                                      | 0.341            | (0.031)                | (2,701)           |
| Other Operating Expenses | (2,226)          | (0.115)                              | (0.473)          | 0.002                  | (2,812)           |
| Service EBITDA           | 0,267            | (0.190)                              | 0.003            | (0.109)                | (0,029)           |
| Cash Revenue             | 7,487            | 0.115                                | 0.135            | 0.026                  | 7,763             |
| IRU Activity             | 1,983            | 0.190                                | 0.000            | 0.106                  | 2,279             |
| Adjusted EBITDA          | 2,250            | 0.000                                | 0.003            | (0.003)                | 2,250             |

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**Global Crossing  
Consolidating Recurring Other Operating Expenses % of Service Revenue**

|   | Actual<br>Q4 2000        | Forecast<br>Q1           | Budget<br>Q2             | Budget<br>Q3             | Budget<br>Q4             | 2001<br>Full Year          | 2001<br>Budget<br>Full Year | Forecast<br>vs Budget<br>\$ Variance |
|---|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|----------------------------|-----------------------------|--------------------------------------|
| North America without ILEC<br>% of Revenue  | 231,768<br>28.6%         | 216,980<br>23.3%         | 230,028<br>22.0%         | 237,949<br>17.9%         | 251,495<br>15.4%         | 938,052<br>19.3%           | 938,052                     | 0 0.0%                               |
| Europe<br>% of Revenue  | 57,761<br>8.4%           | 122,123<br>14.3%         | 115,256<br>11.0%         | 111,706<br>8.4%          | 100,367<br>6.2%          | 449,452<br>9.3%            | 449,452                     | 0 0.0%                               |
| Latin America<br>% of Revenue   | 11,499<br>1.4%           | 20,534<br>2.4%           | 24,783<br>2.4%           | 28,178<br>2.1%           | 29,168<br>1.8%           | 103,633<br>2.1%            | 102,853                     | 0 0.0%                               |
| Asia<br>% of Revenue  | 11,380<br>1.4%           | 26,009<br>3.0%           | 27,573<br>2.6%           | 29,273<br>2.2%           | 29,082<br>1.6%           | 111,937<br>2.3%            | 111,937                     | 0 0.0%                               |
| Corporate<br>% of Revenue   | 128,941<br>16.0%         | 135,467<br>15.3%         | 154,229<br>14.7%         | 162,113<br>12.2%         | 221,200<br>13.6%         | 677,009<br>13.9%           | 677,009                     | 0 0.0%                               |
| <b>Total Telecom Services<br/>% of Telecom Service Revenue</b>  | <b>451,288<br/>56.0%</b> | <b>526,703<br/>61.5%</b> | <b>551,869<br/>52.8%</b> | <b>589,219<br/>42.9%</b> | <b>631,312<br/>38.8%</b> | <b>2,278,103<br/>46.9%</b> | <b>2,278,103</b>            | <b>0 0.0%</b>                        |
| Global Marine<br>% of Revenue   | 123,229<br>12.9%         | 151,866<br>14.7%         | 130,031<br>10.8%         | 119,832<br>8.1%          | 131,350<br>7.4%          | 533,169<br>9.7%            | 533,169                     | 0 0.0%                               |
| <b>Continuing Operations- Recurring Other<br/>Operating Expenses<br/>% of Continuing Operations Revenue</b> | <b>574,527<br/>85.2%</b> | <b>678,569<br/>85.8%</b> | <b>681,920<br/>58.8%</b> | <b>689,051<br/>46.8%</b> | <b>762,662<br/>42.9%</b> | <b>2,812,302<br/>51.3%</b> | <b>2,812,302</b>            | <b>0 0.0%</b>                        |
| GlobalCenter<br>% of Revenue  | 88,781<br>7.4%           | 0<br>0.0%                | 0<br>0.0%                | 0<br>0.0%                | 0<br>0.0%                | 0<br>0.0%                  | 0                           | 0 NA                                 |
| GlobalCenter Japan<br>% of Revenue  | 5,568<br>0.5%            | 0<br>0.0%                | 0<br>0.0%                | 0<br>0.0%                | 0<br>0.0%                | 0<br>0.0%                  | 0                           | 0 NA                                 |
| ILEC<br>% of Revenue  | 82,076<br>6.0%           | 0<br>0.0%                | 0<br>0.0%                | 0<br>0.0%                | 0<br>0.0%                | 0<br>0.0%                  | 0                           | 0 NA                                 |
| <b>Total Recurring Other Operating Expenses<br/>% of Revenue</b>  | <b>750,332<br/>83.1%</b> | <b>678,569<br/>65.6%</b> | <b>681,920<br/>58.8%</b> | <b>689,051<br/>46.8%</b> | <b>762,662<br/>42.9%</b> | <b>2,812,302<br/>51.3%</b> | <b>2,812,302</b>            | <b>0 0.0%</b>                        |

Note: SG&A % calculated using service revenue  
• Q4 2000 North America Business Center Includes IChen/IPC Results.

Other Operating Expenses  
Q4 2000 to Q1 2001 Growth Analysis

|                              | January<br>Actual | February<br>Actual | March<br>Estimate | Q1 01<br>Estimate | Q4 00<br>Actual | Qtr./Qtr.<br>Growth | Qtr./Qtr.<br>Growth % | Growth as<br>a % of Total Growth |
|------------------------------|-------------------|--------------------|-------------------|-------------------|-----------------|---------------------|-----------------------|----------------------------------|
| North America                | 105               | 102                | 89                | 275               |                 |                     |                       |                                  |
| Less: LEO                    | (30)              | (31)               | (30)              | (61)              |                 |                     |                       |                                  |
| Net North America            | 75                | 71                 | 59                | 214               | 146             | 38                  | 25.03%                | 41.30%                           |
| Latin America                | 2                 | 4                  | 8                 | 14                | 11              | 3                   | 27.27%                | 3.28%                            |
| Europe                       | 29                | 32                 | 13                | 74                | 67              | 7                   | 10.45%                | 7.61%                            |
| Asia                         | 6                 | 7                  | 5                 | 16                | 11              | 7                   | 63.64%                | 7.61%                            |
| GMS                          | 51                | 46                 | 55                | 152               | 123             | 20                  | 23.58%                | 31.52%                           |
| Non-IP/OOS                   | 20                | 20                 | 4                 | 64                | 70              | 10                  | 15.62%                | 19.57%                           |
| Corporate & Subsea           | 19                | 34                 | 56                | 109               | 117             | (8)                 | -6.84%                | -8.70%                           |
| Unadjusted OOE               | 211               | 222                | 179               | 512               | 587             | 58                  | 10.47%                | 63.04%                           |
| IP/OOS included in OOE above | 11                | 11                 | 11                | 33                | 33              | 22                  | 66.67%                | 3.58%                            |
| Adj. OOE                     | 222               | 233                | 190               | 545               | 554             | 92                  | 16.61%                | 100.00%                          |
| Non-IP/OOS                   | 20                | 20                 | 4                 | 64                | 70              | 10                  | 15.62%                | 19.57%                           |

## NOTES:

\* Based upon the details reviewed, it appears as if all GMS costs, including any OOS are included in SON, which is therefore rolling up into Other Operating Expenses.

\*\* Based upon the details reviewed, it appears as if \$4M of IP/OOS is included in the COMCOSON line item and is therefore, mistakenly not rolling up into Other Operating Expenses.

Q4 00  
601  
(26) →  
575

DOE As Reported  
Now Accurately

645 575

Notes: Top 10 of Issues:  
email to Kirk: I  
we may deal w/ some  
of the issues on Fri.

Zerit Agardi  
→ has fine been sci  
up

12  
5  
26

**Other Operating Expenses**  
**Q4 2000 to Q1 2001 Growth Analysis**

|                             | January<br>Actual | February<br>Actual | March<br>Estimate | Q1 01<br>Estimate | Q4 00<br>Actual | Qtr./Yr.<br>Growth | Growth as<br>a % of Total Growth |
|-----------------------------|-------------------|--------------------|-------------------|-------------------|-----------------|--------------------|----------------------------------|
| North America               | 105               | 102                | 68                | 275               |                 |                    |                                  |
| Less: ILEC                  |                   |                    | (30)              |                   |                 |                    |                                  |
| Net North America           | 75                | 71                 | 38                | 184               | 146             | 38                 | 41.30%                           |
| Latin America               | 2                 | 4                  | 8                 | 14                | 11              | 3                  | 28.03%                           |
| Europe                      | 29                | 32                 | 13                | 74                | 67              | 7                  | 27.27%                           |
| Asia                        | 6                 | 7                  | 5                 | 18                | 11              | 7                  | 10.45%                           |
| GMS                         | 51                | 48                 | 55                | 152               | 123             | 29                 | 63.64%                           |
| Non-telecom                 | 29                | 28                 | 1                 | 63                | 79              | 33                 | 23.58%                           |
| Corporate & Subsea          |                   | 34                 | 56                | 109               | 117             | (8)                | 31.52%                           |
| Unadjusted OOE              | 211               | 222                | 179               | 612               | 554             | 53                 | 19.37%                           |
| IPGCS included in OOE above | 11                | 11                 | 11                | 34                | 36              | 3                  | -8.70%                           |
| Adj. OOE                    | 222               | 233                | 190               | 646               | 554             | 92                 | 63.94%                           |
| IPGCS included in OOE above | 11                | 11                 | 11                | 34                | 36              | 3                  | 100.00%                          |
| Adj. OOE                    | 233               | 244                | 201               | 680               | 590             | 90                 | 13.23%                           |
| IPGCS included in OOE above | 11                | 11                 | 11                | 34                | 36              | 3                  | 20.25%                           |
| Adj. OOE                    | 244               | 255                | 212               | 714               | 626             | 88                 | 12.39%                           |

**NOTES:**

\* Based upon the detail reviewed, it appears as if all GMS costs, including any COS are included in SGA, which is therefore rolling up into Other Operating Expenses.

Based upon the detail reviewed, it appears as if \$34M of IPC COS is included in the COA/COS item and is therefore mistakenly not rolling up into Other Operating Expenses.

M/M  
 4/9/01

Leahy D. Shum TC LMC Joe C.  
 Carl G. Perrowe Dan C. John C. (Age)  
 Bill A. Jose R. Jim G.  
 John C.

- ① Discussion of meeting delivery dates on orders - overlap of organization?
- David to investigate immedi.
  - Joe + Carl to assist.
  - John C. to assist from H.R. point of view.

- ② DOD meeting Wed.
- David coming
  - Carl's presentation postponed indefinitely re: Europe.
  - maybe after 2nd Q.

- ③ Negative <sup>Revenue</sup> EBITDA for 1st Q = \$155M
- expense line is performing as budgeted
  - revenue line is not.
  - difficulty is - can't run at current expenses if revenue not high enough.

Choices:

1. incremental revenue ~~stare~~
2. expense run rate reduced.

Question for all - can we make up 1st Q in rest of year? or are

going to stay low on revenues  
which means we need to

David comment - 1/6:  
- intervals for provisioning  
- sales forecast is 6.4-6.9  
- revenue projection doesn't  
change. That's no better EBITDA  
Dan C. - How much of revenue is  
service? IRL?  
Carrier 4.2 budget but  
will be @ 3.9's  
Dan + David to go through this  
forecast budget more closely.

basically  
blame  
revenue  
shortfall  
provisioning  
10%!

so need to think about  
a reaction to that on expense  
side.

Tom - need both! Expense reductions  
revenue improvements  
(not ok to be 15% below revenue  
budget)

David - has list of 10 initiatives from  
his team re: recurring revenue  
on commercial data revenue.

Tom - we need a plan to get above  
7.1% revenue this year.  
What @ rest? Tom asks

David thinks big shortfall is on commercial data revenue. - we are doing seasonal jobs provisioning carrier

Tom - But I want a plan to increase projected revenue for all revenue areas. - not just commercial data.

- It is not entirely a service delivery problem! It is both
  - getting the orders
  - getting it provisioned.
- we need to treat this as crisis!
- \$1B off on revenue
- \$1B off on expenses
- need to hear views this week!
- ↳ cut another 2000 people?

Bill G. - have released 3 systems:

1. - Improv. - order management
2. - Expenscom - inventory system
3. - ASR LSR - ramp up?

- maybe train and release in a specific order to help revenue areas

David - ABID system - "Access Bid" <sup>most</sup> needed.  
 ↳ needs to be plugged into inventory. - Auction &  
 ↳ allows customer to trade service.

- recently closed 40 MNC deals.
- mainly JPL + data

### Latin America

- have 7 new meetings w/ <sup>new possible</sup> ~~new~~ customers
- launching Rami's Mex.
- launching Chile
- IMEBEA - problem because of Telefonica unable to service their customers.

John C. - to assist Jose w/ resources for new opportunities.

- Jim - if looking on CAPEX side, then may have problem w/ Telecom Italia and Med. System.
- have commitment for GX. to ~~leave~~ <sup>leave</sup> from theme 88m worth of capacity.

David { to meet  
Jim { and discuss  
Wally {  
John { much

but system has changed dramatically. - so we may not have legal obligation to continue w/ further commit & payments, but we have complicated relationship w/ them. they also owe us money.  
→ play hard ball now.

Don C. - holding back CapEx this year?  
 - delay some payments?

ie:  
 Lisa Dade + Marty Klapper looking  
 at this. w/ Don C. + Wally.

ie: payments due on capacity  
 we purchase is not due until  
 we put traffic on it so-  
 don't light it unless we  
 have sold business to put  
 on it. (ie. IP network of 300  
 in North America.)

- Tingley's bandwidth disk?  
 Once network people decide we  
 don't need something in our  
 inventory then goes to

Tom asked  
 Wally? - Who keeps track of what other  
 networks have? asset details?  
 - only Jasea, not J. in ten.

\* Tom wants someone to do this  
 for North America terrestrial

No Asia Report

Perone - 80M unfavorable service EBITDA  
 for the Q.


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- unfav. variance is going to  
persist for entire year because  
mrr rate is higher (ie: cost of access)


Action Items

1. Revenue Enhancement plan.
2. Organizational plan
3. Cost containment plan
4. Cap-Ex containment plan


**Global Crossing**

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**GLOBAL CROSSING'S PRO FORMA RECURRING ADJUSTED EBITDA UP 43% AND PRO FORMA CASH REVENUE UP 39% FROM FIRST QUARTER OF 2000**

- Commercial Service Revenue increased 7% sequentially with Commercial Data Services up 12% sequentially.
- Telecommunications Service Revenue increased 6% sequentially with total Data Services up 16% sequentially.
- Cash Revenue from Data Services increased 59% from first quarter 2000; represents 63% of Telecommunications Services Cash Revenue, up from 52% one year ago. Pro Forma for acquisitions and dispositions.
- New York Public Service Commission and FCC approved the Company's incumbent local exchange carrier sale to Citizens Communications for \$3.5 billion cash, with closing accelerated to June 2001.
- The Global Crossing Network, nearly 90% complete, became the first network to implement Multi Protocol Label Switching as a backbone transport technology on a global basis, enabling Global Crossing to offer the most robust VPNs worldwide.

**Hamilton, Bermuda - May 9th, 2001** - Global Crossing Ltd. (NYSE: GX), which provides integrated telecommunications solutions over the world's most extensive global IP-based fiber optic network, today reported results for the quarter ended March 31, 2001. For its continuing operations, the Company reported first quarter Cash Revenue of \$1,613 million, Recurring Adjusted EBITDA of \$441 million, and a Recurring Net Loss of \$608 million, or \$0.69 per share.

Tom Casey, Chief Executive Officer of Global Crossing, said, "We are extremely pleased with our strong first quarter results, which reflect our continuing transformation from a carrier's carrier to a value-added telecommunication services provider. We continue to leverage the competitive advantages of our global network and increasingly strong sales team to expand and diversify our revenue streams. Our commercial services segment performed particularly well, with sequential growth of 12% in commercial data services."

**Summary of Quarterly Pro Forma Results**  
Results for Continuing Operations exclude Global Crossing's ILEC business, which the Company has agreed to sell to Citizens Communications for an estimated \$3.5 billion in cash, with closing anticipated in June of this year; and GlobalCenter, whose sale to Exodus Communications was completed on January 10, 2001 for 108.2 million shares of Exodus common stock.

Unless otherwise noted, period-to-period comparisons for Continuing Operations throughout this press release are discussed giving Pro Forma effect to all acquisitions and dispositions as if each had occurred on January 1, 2000. Detailed Pro Forma comparisons are shown in the attached schedules.

**Summary of Quarterly Pro Forma Operations:**

|                      | March 31<br>2001 | March 31<br>2000 | Amount | Percent |
|----------------------|------------------|------------------|--------|---------|
| Pro Forma Continuing |                  |                  |        |         |

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Global Crossing's Pro Forma Recurring Adjusted Ebitda Up 43% And Pro Forma Cash Revenue Up 39%.E Page 2 of 9

|                          |         |         |       |     |
|--------------------------|---------|---------|-------|-----|
| Operations (1)           |         |         |       |     |
| Cash Revenue             | \$1,513 | \$1,160 | \$453 | 39% |
| Recurring Adjusted EBITA | \$441   | \$307   | \$134 | 43% |

(1) The Pro Forma amounts in the table above reflect, for both periods presented, the Company's formation of Hutchison Global Crossing, the acquisition of IPC/IXnet and the dispositions of both its ILEC business and GlobalCenter, as if each had occurred on January 1, 2000.

#### Telecommunications Services Segment

During the quarter, the Company expanded its strong presence with customers in the Carrier and Financial Markets sectors, signing new contracts with customers such as Lockheed Martin Global Telecommunications, U.S. Cellular, JP Morgan Chase & Co., Enron and the Chicago Stock Exchange. New service contracts were also signed with a number of multinational corporations including Hoffman-La Roche, Skadden-Arps, and Ticketmaster.

Global Crossing also announced a service and solutions offering that will enable the media and entertainment industry to communicate and collaborate over the Global Crossing network. In conjunction with this effort, the Company announced a strategic partnership under which Constellation Ventures will allocate \$100 million towards the development of applications by emerging software and service-based companies for the media and entertainment industry. In addition, the Company announced co-marketing agreements with BBC Technology and VDI Multimedia to jointly market an extensive suite of solutions that will streamline processes and introduce next generation broadband services to this industry. In partnership, the companies intend to offer potential customers the bandwidth and services necessary to seamlessly create, collaborate and connect in a fully secure, digital environment.

The Telecommunications Services segment, which is comprised of commercial, consumer and carrier businesses for bandwidth, data, voice, audio/video conferencing and other value-added services, recorded Cash Revenue growth of 30% and Adjusted EBITDA growth of 45%, from the first quarter 2000. Total Service Revenue for the segment, which excludes the effect of the sale of capacity as IRU's, increased 13% from the first quarter of 2000, and 6% sequentially, to \$851 million. The accelerating growth in Telecommunications Service Revenue reflects the Company's increased focus on services and enterprise customers.

For all data services, Cash Revenue was up 59% from first quarter 2000, now accounting for 63% of Telecommunications Services Cash Revenue, up from 52% in the first quarter of 2000. Service Revenue from all data services increased 44% from the first quarter of 2000 and 16% sequentially.

Within Telecommunications Services, the Commercial sector recorded solid sequential revenue growth. Total revenue from voice and data services increased by 7% over fourth quarter 2000 results, with Commercial Data Revenue (including IP, Frame Relay, ATM and private line) increasing 12% sequentially.

For the Carrier segment, Cash Revenue was \$956 million in the first quarter of 2001, an increase of 46% over first quarter 2000. Within the Carrier segment, Data Service Revenue (including IP, Frame Relay, ATM and private line) experienced healthy growth, increasing 88% over the first quarter of 2000 and 23% sequentially. Cash Revenue from the sale of capacity in the form of IRU's was \$567 million for the quarter, an increase of 69% from the first quarter of 2000, and a slight decline from the fourth quarter of 2000. Included in this amount, and in Adjusted EBITDA, was \$375 million received from significant carrier customers who signed contracts during the quarter to purchase \$500 million of capacity on the Global Crossing Network, and to whom Global Crossing made substantial capital commitments during the quarter (see "Network and Capital Plan" below).

**Installation and Maintenance Services Segment**

The Company's installation and maintenance business segment, consisting of its Global Marine subsidiary, reported revenue of \$209 million for the first quarter of 2001, as compared to \$161 million in the fourth quarter of 2000. During the quarter, the Company experienced an increase in revenue due to installation projects in the Far East on APCN-2 and on other cable projects including East Asia Crossing.

**Discontinued Operations - Incumbent Local Exchange Carrier & GlobalCenter**

The Company's discontinued operations, consisting of its ILEC and GlobalCenter segments, reported revenue of \$191 million for the first quarter of 2001, with Recurring Adjusted EBITDA of \$98 million.

**Network and Capital Plan**

Global Crossing's core network is now operational over 88% of its planned route miles. The planned length of the network is approximately 100,000 route miles, reaching 27 countries and more than 200 major cities. The Company recently announced the first implementation of Multi Protocol Label Switching (MPLS) traffic engineering as a backbone transport technology on a global basis. By enabling IP packets of data to be expressly routed directly to their final destination, in contrast to conventional ("best efforts") indirect routing methods, MPLS provides improved traffic engineering, faster fail-over times, a more scalable network architecture and, ultimately, more advanced network services. The deployment of MPLS technology over physical mesh architecture is anticipated to enable Global Crossing to offer the most robust end to end VPNs worldwide.

Global Crossing also recently added six voice over IP (VOIP) gateway centers in Europe, enabling the company to carry voice as IP traffic to the United States. Core VOIP gateway centers are located in Amsterdam, Brussels, Copenhagen, Frankfurt, London, Paris and Tokyo, plus 15 additional tier-one markets in the United States. The VOIP platform is carrier class in scale and quality, is currently carrying voice traffic, and is expected to have a capacity of more than 2 billion minutes per month by the end of 2001. The VOIP platform reduces costs and serves as an enabling technology for converged voice, data and video services over a single connection, allowing customers to operate more efficiently.

During the quarter, the Company entered into a multi-year agreement to provide Centennial Communications with \$150 million of fiber optic undersea capacity, to be provided over the existing Mid-Atlantic Crossing system, as well as over acquired or constructed new capacity, connecting key Caribbean markets to Miami. If constructed, the new system would have more capacity than required for the Centennial contract.

During the quarter, the Company also entered into several agreements with various carrier customers for the purchase of capacity and co-location space. These transactions were implemented in order to acquire cost-effective local network expansions; to provide for cost-effective alternatives to new construction in certain markets in which the Company anticipates shortages of capacity; and to provide additional levels of physical diversity in the network as the Company implements its global mesh architecture. The new capital commitments totaled an estimated \$625 million, including the cost of the possible construction of the Caribbean system on which Centennial would be the anchor customer.

Notwithstanding the capital commitments described above, the Company reaffirmed its previously announced plans for capital expenditures of approximately \$10 billion in the aggregate for 2000-2001. The Company projects that these commitments will be offset by a combination of network efficiencies, use of existing inventories, lower-than-planned prices from vendors, and spending at slower than budgeted rates. Capital spending for continuing operations during 2001 (including spending by Asia Global Crossing) is expected to remain approximately \$4.9 to \$5.1 billion, an amount that includes approximately \$1 billion of previously announced capital spending from

the 2000 capital program for which payments will be made in 2001.

On April 25, 2001 the New York Public Service Commission approved the sale of Global Crossing's incumbent local exchange carrier business to Citizens Communications. This followed approval by the Federal Communications Commission (FCC) on April 17, 2001. All remaining regulatory approvals are expected in May of 2001, with closing expected in June of this year. The cash consideration for the sale has been adjusted to \$3.5 billion to reflect changes in certain terms of the transaction, including an agreement for expedited closing.

#### Definition of Terms Used

Throughout this press release, Pro Forma results have been discussed, which give effect to the formation of Hutchison Global Crossing, the acquisition of IPC/IXnet and the dispositions of both its ILEC business and GlobalCenter, as if each had occurred on January 1, 2000. In this press release, Revenue refers to revenue reported on the Company's statements of operations under Generally Accepted Accounting Principles. Cash Revenue refers to Revenue plus the cash portion of the change in deferred revenue. Service Revenue excludes all impacts of IRU sales, and refers to Revenue less any revenue recognized immediately for circuit activations that qualified as sales type leases; less the revenue recognized due to the amortization of IRUs sold in prior periods and not recognized as sales-type leases. Adjusted EBITDA refers to operating income (loss) plus goodwill and intangibles amortization, depreciation and amortization, non-cash cost of capacity sold, stock related expense and the cash portion of the change in deferred revenue, which definition is consistent with the financial covenants contained in the Company's major financing agreements. Recurring Adjusted EBITDA refers to Adjusted EBITDA plus one-time merger and integration expenses and other non-recurring expenses. For all periods presented, net income generated by the ILEC and GlobalCenter businesses is reported as "Income from discontinued operations, net of taxes" on the accompanying Condensed Consolidated Statements of Operations.

#### About Global Crossing

Global Crossing Ltd. (NYSE:GX) provides telecommunications solutions over the world's first integrated global IP-based network, which will have approximately 100,000 route miles, reaching 27 countries and more than 200 major cities. Global Crossing serves many of the world's largest corporations and organizations, providing a full range of managed data and voice products and services. Global Crossing operates throughout the Americas, Europe and the Asia/Pacific region, and provides services in Asia through its subsidiary, Asia Global Crossing (NYSE:AX). Global Crossing Solutions provides integrated telecommunications solutions, including network outsourcing, to large global enterprises. Please visit [www.globalcrossing.com](http://www.globalcrossing.com) or [www.asiaglobalcrossing.com](http://www.asiaglobalcrossing.com) for more information.

# # #

*Statements made in this press release that state the Company's or management's intentions, beliefs, expectations, or predictions for the future are forward-looking statements. Such forward-looking statements are subject to a number of risks, assumptions and uncertainties that could cause the Company's actual results to differ materially from those projected in such forward-looking statements. These risks, assumptions and uncertainties include: the ability to complete systems within currently estimated time frames and budgets; the ability to compete effectively in a rapidly evolving and price competitive marketplace; changes in the nature of telecommunications regulation in the United States and other countries; changes in business strategy; the successful integration of newly-acquired businesses; the impact of technological change; and other risks referenced from time to time in the Company's filings with the Securities and Exchange Commission.*

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**Global Crossing Ltd. And Subsidiaries**

**Financial Tables**

Condensed Consolidated Statements Of Operations  
(In Thousands, Except Share And Per Share Amounts)

|  | Three Months Ended<br>March 31 |           | Pro Forma Three Months<br>Ended March 31 |           |
|--|--------------------------------|-----------|--|-----------|
|  | 2001                           | 2000      | 2001                                     | 2000      |
| REVENUES   | \$1,081,661                    | \$906,569 | \$1,081,661                              | \$994,309 |
| Cash Revenue   | \$1,613                        | \$1, 160  | \$453                                    | 39%       |
| Recurring Adjusted EBITA   | \$441                          | \$307     | \$134                                    | 43%       |
| REVENUES   | \$1,081,661                    | \$906,569 | \$1,081,661                              | \$994,309 |
| OPERATING EXPENSES:  |                                |           |  |           |
| Cost of access and maintenance   | 532,665                        | 430,152   | 532,665                                  | 455,506   |
| Other Operating expenses   | 649,646                        | 361,283   | 649,646                                  | 452,734   |
| Depreciation and amortization  | 412,609                        | 278,792   | 412,609                                  | 393,399   |
| Total operating expenses   | 1,594,920                      | 1,070,227 | 1,594,920                                | 1,301,639 |
| OPERATING LOSS   | (513,259)                      | (163,658) | (513,259)                                | (307,330) |
| Other income (expense):  |                                |           |  |           |
| Equity in (loss) income of affiliates  | (11,035)                       | (5,629)   | (11,035)                                 | (19,584)  |
| Minority interest  | 40,573                         | (15,731)  | 40,573                                   | (10,782)  |
| Interest income  | 26,951                         | 15,050    | 26,951                                   | 15,329    |
| Interest expense   | (142,112)                      | (83,993)  | (142,112)                                | (105,465) |
| Other income (expense) net   | (8,762)                        | (4,863)   | (8,762)                                  | (5,890)   |
| (LOSS) INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES, EXTRADORDINARY ITEMS AND CUMULATIVE EFFECT | (607,644)                      | (258,824) | (607,644)                                | (433,722) |

Global Crossing's Pro Forma Recurring Adjusted Ebitda Up 43% And Pro Forma Cash Revenue Up 39%.E Page 6 of 9

|   |             |             |             |             |
|---|-------------|-------------|-------------|-------------|
| OF CHANGE IN ACCOUNTING   |             |             |             |             |
| Benefit (provision) from income taxes   | 45,773      | 7,018       | 45,773      | 10,007      |
| (LOSS) INCOME BEFORE EXTRAORDINARY ITEMS AND CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING        | (561,871)   | (251,806)   | (561,871)   | (423,715)   |
| (Loss) income from discontinued operations, net (1)   | (54,003)    | (51,013)    | (54,003)    | (51,013)    |
| Extraordinary loss on retirement of debt, net   | --          | --          | --          | --          |
| Cumulative effect of change in accounting principle, net                                      | --          | --          | --          | --          |
| NET LOSS  | (615,874)   | (302,819)   | (615,874)   | (474,728)   |
| Preferred stock dividends   | (59,492)    | (45,258)    | (59,492)    | (64,664)    |
| Conversion of preferred stock into common stock   | --          | --          | --          | --          |
| NET LOSS APPLICABLE TO COMMON SHAREHOLDERS  | \$(675,366) | \$(348,077) | \$(675,366) | \$(539,392) |
| NET LOSS PER COMMON SHARE: Loss from continuing operations applicable to common shareholders: |             |             |             |             |
| Basic and diluted   | \$(0.70)    | \$(0.38)    | \$(0.70)    | \$(0.58)    |
| Loss from discontinued operations, net: Basic and diluted                                     | (0.06)      | (0.07)      | (0.06)      | (0.06)      |
| Extraordinary loss on retirement of debt, net: Basic and diluted                              | --          | --          | --          | --          |
| Cumulative effect of change in accounting principle, net: Basic and diluted                   | --          | --          | --          | --          |
| Net loss applicable to common shareholders: Basic and diluted                                 | \$(0.76)    | \$(0.45)    | \$(0.76)    | \$(0.64)    |
| Shares used in computing loss per share: Basic and diluted                                    | 884,702,182 | 778,780,323 | 884,702,182 | 837,008,681 |
| RECURRING NET LOSS PER COMMON SHARE: Net loss applicable to common shareholders               | \$(675,366) | \$(348,077) | \$(675,366) | \$(539,392) |
| Tyco claims settlement  | --          | --          | --          | --          |
| Merger-related expenses and severance   | 4,589       | 12,095      | 4,589       | 35,383      |
| Non-cash severance  | --          | 9,862       | --          | 9,862       |

Global Crossing's Pro Forma Recurring Adjusted Ebitda Up 43% And Pro Forma Cash Revenue Up 39%.E Page 7 of 9

|   |             |             |             |             |
|---|-------------|-------------|-------------|-------------|
| Extraordinary loss on retirement of debt, net   | --          | --          | --          | --          |
| Cumulative effect of change in accounting principle, net  | --          | --          | --          | --          |
| (Loss) income from discontinued operations, net   | 54,003      | 51,013      | 54,003      | 51,013      |
| Other (income) expense, net   | 8,762       | 4,862       | 8,762       | 5,890       |
| RECURRING NET LOSS APPLICABLE TO COMMON SHAREHOLDERS  | \$(608,012) | \$(270,244) | \$(608,012) | \$(437,244) |
| Recurring net loss applicable to common shareholder: Basic and diluted  | \$(0.69)    | \$(0.35)    | \$(0.69)    | \$(0.52)    |
| ADJUSTED EBITDA AND RECURRING ADJUSTED EBITDA: Operating loss   | \$(513,259) | \$(163,658) | \$(513,259) | \$(307,330) |
| Depreciation and amortization   | 412,609     | 278,792     | 412,609     | 393,399     |
| Stock related expense   | 5,126       | 18,851      | 5,126       | 20,086      |
| Cash portion of the change in deferred revenue  | 531,585     | 165,932     | 531,585     | 165,932     |
| ADJUSTED EBITDA   | \$436,061   | \$299,917   | \$436,061   | \$272,087   |
| Merger-related expenses and severance   | 5,147       | 12,095      | 5,147       | 35,383      |
| Tyco claims settlement  | --          | --          | --          | --          |
| RECURRING ADJUSTED EBITDA   | \$441,208   | \$312,012   | \$441,208   | \$307,470   |
| Ended December 31, 2000   |             |             |             |             |
| REVENUES  | \$996,965   |             |             |             |
| OPERATING EXPENSES:   |             |             |             |             |
| Cost of access and maintenance  | 547,232     |             |             |             |
| Other operating expenses  | 601,296     |             |             |             |
| Depreciation and amortization   | 428,425     |             |             |             |
| Total operating expenses  | 1,576,953   |             |             |             |
| OPERATING LOSS  | (579,988)   |             |             |             |
| Other income (expense):   |             |             |             |             |
| Equity in (loss) income of affiliates   | (36,533)    |             |             |             |
| Minority interest   | 21,145      |             |             |             |
| Interest income   | 56,439      |             |             |             |
| Interest expense  | (99,780)    |             |             |             |
| Other income (expense), net   | 279,724     |             |             |             |
| (LOSS) INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES, EXTRAORDINARY ITEMS AND CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING | (358,993)   |             |             |             |
| Benefit (provision) from income taxes   | 61,486      |             |             |             |
| (LOSS) INCOME BEFORE EXTRAORDINARY ITEMS AND CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING  | (297,507)   |             |             |             |



Global Crossing's Pro Forma Recurring Adjusted Ebitda Up 43% And Pro Forma Cash Revenue Up 39%.E Page 8 of 9

|   |             |
|---|-------------|
| (Loss) income from discontinued operations, net (1)                                 | (123,622)   |
| Extraordinary loss on retirement of debt, net                                       | (23,848)    |
| Cumulative effect of change in accounting principle, net                            | (9,059)     |
| NET LOSS  | (454,036)   |
| Preferred stock dividends   | (59,392)    |
| Conversion of preferred stock into common stock                                     | --          |
| NET LOSS APPLICABLE TO COMMON SHAREHOLDERS  | \$(513,428) |
| NET LOSS PER COMMON SHARE:  |             |
| Loss from continuing operations applicable to common shareholders Basic and diluted | \$(0.40)    |
| Loss from discontinued operations, net Basic and diluted                            | (0.14)      |
| Extraordinary loss on retirement of debt, net - Basic and diluted                   | (0.03)      |
| Cumulative effect of change in accounting principle, net basic and diluted          | (0.01)      |
| Net loss applicable to common shareholders - Basic and diluted                      | \$(0.58)    |
| Shares used in computing loss per share - Basic and diluted                         | 883,786,120 |
| RECURRING NET LOSS PER COMMON SHARE:  |             |
| Net loss applicable to common shareholders  | \$(513,428) |
| Tyco claims settlement  | 9,065       |
| Merger-related expenses and severance   | 5,385       |
| Non-cash severance  | 5,085       |
| Extraordinary loss on retirement of Debt, net                                       | 23,848      |
| Cumulative effect of change in Accounting principle, net                            | 9,059       |
| (Loss) income from discontinued operations, net                                     | 123,622     |
| Other (income) expense, net   | (279,724)   |
| RECURRING NET LOSS APPLICABLE TO COMMON SHAREHOLDERS                                | \$(617,088) |
| Recurring net loss applicable to common shareholders - Basic and diluted            | \$(0.70)    |
| ADJUSTED EBITDA AND RECURRING ADJUSTED EBITDA:                                      |             |
| Operating loss  | \$(579,988) |
| Depreciation and amortization   | 428,425     |
| Stock related expense   | 12,218      |
| Cash portion of the change in deferred revenue                                      | 543,356     |
| ADJUSTED EBITDA   | \$404,011   |
| Merger-related expenses and severance   | 5,385       |
| Tyco claims settlement  | 9,065       |
| RECURRING ADJUSTED EBITDA   | \$418,461   |

(1) This amount is comprised of approximately \$6 million in losses from the results of discontinued operations for the quarter. In addition, this amount reflects an approximate \$82 million gain, net of tax, resulting from the January 2001 sale of GlobalCenter to Exodus Communications as well as an estimated loss of \$130 million, net of tax, related to the sale of the ILEC business to Citizens Communications, which has a contemplated closing date of June 2001.

MM 4/16File 314-9099 - Carl

|                       |             |                                      |        |
|-----------------------|-------------|--------------------------------------|--------|
| <u>Tony</u>           | Carl B.     | Dan C.                               | Sherr: |
| Lmc                   | Joe C.      | Wally                                |        |
| Gargl.                | <u>Jose</u> | <u>Jim</u> → out working on Citizens |        |
| David W.              |             | Joe P.                               |        |
| ACC <u>          </u> |             | <u>John C.</u>                       |        |
|                       |             | Bill A.                              |        |

Citizens update

- NYPSA -

↳ reduced commitment to complete from 3yrs to 1yr.

↳ roll back Citizens rates by  $\approx 5M$ /year.  
- they claim this is a material actual class.

- but they agree to 2032 60 days earlier (end of June)

↳ - we will reduce price to accommodate NYSC.

David - Carver

\$1.76B in opportunity

35 concert            678M - focused primarily  
50 Telecom funnel            in global assets  
new # ? 240M in reciprocal deals

Concert deal good for 2nd Q?  
\$35M cash: yes

CONFIDENTIAL  
GX-HEC-40141

David - Business Plan for Bandwidth

Markets - please review

1) MFN issue of Level 3

2) connectivity into peering  
points  
& core

3) Industry standard  
Master Lease document

Wally  
Jim G.  
Dennis

TSN - from reciprocal buys into  
forecast.

- we made our 600m commitments  
to get 1st Q done, had material  
impact on cash plan and  
Capex budget.

- we do not have room for  
more reciprocal deals.

Level 3 - carryover from last Q. 150m  
purchase - 150m reciprocal

Telefonix - 150m purchase, 50m recip.  
for Atlanta capacity

Jon - if we can sell some of the  
stuff we bought last Q - then it  
helps cash flow

CONFIDENTIAL  
GX-HEC-40142

Tom Expense Budget

- we are missing on recovering  
data service revenue line.

- we must make significant  
cuts on expenses.

2,250 1.) cost of access <sup>James Harkin</sup>  
in expenses <sub>↳ people need to</sub> <sup>James Oliver</sup>  
step up and use new plans.

2.) Personnel <sup>considering</sup>  
↳ headcount <sup>further head</sup>  
↳ travel, space, benefits. <sup>cost reductions</sup>

3.) Space - Scott <sup>bagh</sup>  
- Scott making proposals  
to cut space.

4.) Professional Service Fees  
↳ lawyers  
↳ consultants  
↳ accts.

5.) Copax - really working w/ ? future veg.  
to reduce ~~or eliminate~~  
or deferred, or canceled.

Why did  
John &  
Renee  
come  
out?

cut!

South America - Jose

- MNC's + M&E look good.
- good response to our minimal effort.
- Brazil - good reply by Tulman, we are in front line for 2 international partners.
- We have Qcense in Peru.
  - ↳ small market, but untapped.
  - ↳ 2nd round of elections in May
- \* Some - will be under budget on expenses

Europe - Carl

- = MNC growing up
- University of Amsterdam Dec - 1997
- Peter Ballas to fix voice platform.
- \* ↳ VIATel possible for voice.
- = have a lot of work to do on recurring service B., fixing voice platform will help.
- = looking to pick up VIATel and users

North Am. - Joe

- concerned @ Chapter 11 customers.
- " @ data removal #'s on retail & wholesale.

David to send "playbook" on ? to Joe, Gary, Dan?

Big Picture - Tom asks?

- David
- we manage by emergency & exception, not by daily routine accountability by the troops
  - efforts are being duplicated.
  - need better organizational alignment.

John:

- there is confusion as to function vs. regional at the top, so it of confusion flows through the CO.
- mixing level 6 and above.

Gary:

- too much organization.
- need focus to be global for leadership.

Joe - duplicated resources.

think globally, act regionally.

- Tom
- our value proposition is global
  - also have regional customers, but need to take advantage of our strength which is global.
  - where should leadership be?
    - ↳ global vs. regional.

Theme for today - must fix this!

- 1// - missing revenue
- 2// - running at an expense rate that is ridiculous.

## MANAGEMENT MEETING

Monday, April 16, 2001  
Minutes

| Title/Department     | Name          | Attended | Absent/ Reason      |
|----------------------|---------------|----------|---------------------|
| CEO & Meeting Chair  | Tom Casey     | ✓        |                     |
| OTC                  | Lod Cook      | ✓        |                     |
| President & COO      | David Walsh   | ✓        |                     |
| Global Solutions     | Gary Cohen    | ✓        |                     |
| Legal                | Jim Gorton    |          | out - Citizens deal |
| Finance              | Dan Cohrs     | ✓        |                     |
| Accounting           | Joe Perrone   | ✓        |                     |
| Human Resources      | John Comparin | ✓        |                     |
| North America        | Joe Clayton   | ✓        |                     |
| Europe               | Carl Grivner  | ✓        |                     |
| South America        | Jose Rios     | ✓        |                     |
| Operations           | Wally Dawson  | ✓        |                     |
| Information Systems  | Bill Adiletta | ✓        |                     |
| Asia Global Crossing | John Legere   |          | out - MFSIT         |
| Support              | Sherri Cook   | ✓        |                     |

Discussion Items

1. Citizens/ILEC Update - The NYPSC negotiations have reached two final points for closure. They demand that the covenant to compete be reduced from 3 years to 1 year, and that Citizens reduces rates by @ \$5M per year on existing customers. Gary Winnick and Leonard Tow are handling the final negotiations. To accelerate closure on these items and contingent on no other demands from the NYPSC, GX has tentatively agreed to reduce the price to accommodate the rate reduction and Citizens has agreed to close 60 days earlier than scheduled.
2. Second Quarter Update - David reported that there is \$1.76B in sales opportunity. Of this, \$678M is focused primarily in global accounts. However, there is approximately \$221M in reciprocal deals. Concert should bring \$35M cash in Q2; TelecomItalia estimated to bring in \$50M. Tom said we made over \$600M commitments in 1stQ reciprocal deals. This had material impact on cash plan and Capex budget. We do not have room for more reciprocal deals. We need to sell some of what we bought in last Q's reciprocal deals to help cash flow for 2Q deals.
3. Business Plan for Bandwidth Markets - David asked for all to please review the business plan circulated, but especially need feedback from Wally, Jim, Dan, and Joe P. There are 3 issues that need attention:
  - a) the MFN language with Level 3
  - b) connectivity into pooling points
  - c) an industry standard Master Lease document



4. Expense Run Rate – Tom reiterated need to make significant cuts on expenses due to low recurring service revenue. We are preparing a plan for immediate action directed at expense and Capex reduction. Focus areas for cutbacks:

- a) Cost of Access
  - \$2.25B of expenses in this area
  - Need everyone to step up and use new plan
  - Jaime Martino and Jaime Oliver are working on plans. They need support from all organizations.
- b) Personnel
  - consider further reduction in headcount
  - travel, entertainment, benefits
- c) Space
  - Scott Sabbagh working on proposals on where to cut space
- d) Professional Service Fees
  - lawyers, consultants, accountants
  - need for everyone to review and cut back on use of outside services
- e) Capex
  - Wally working with Gutierrez to reduce, defer, or cancel items.

5. Regional Reports

South America

- MNC's and M&E look to have good response with minimal effort
- Brazil has a good opportunity with Telemar. They are looking for two international partners. We are in front line for being picked as one of them.
- We have received our license in Peru. It is a small market, but as yet untapped. 2<sup>nd</sup> round of political elections coming in May.
- Expect to be under budget on expenses.

Europe

- MNC gearing up. Have University of Amsterdam deal for \$1M.
- Peter Calis working on voice platform. Viatel is possible deal for voice.
- Have a lot of work to do on recurring service \$\$, but fixing voice platform will help.
- Looking to pick up Viatel end users.

North America

- Still concerned about Chapter 11 customers.
- Also concerned about data revenue numbers on retail and wholesale.

6. Organizational Strategy Discussion

- We manage by emergency and exception, not by daily routine accountability.
- Efforts are being duplicated. Need to review Level 6 and above.
- Need better organizational alignment.
- There is confusion as to functional vs. regional accountability through the company.
- Need focus to be global for leadership. Think globally, and act regionally.
- Our value proposition is global.

mm 4/23

888-666-9845  
6885848#

- Lod  
Carl  
- Bill A.  
- Wally  
Dan C.  
DAVID  
- Gary C.

Tom  
John  
Joe P.  
Joe C.  
Jose <sup>Apt. 100's</sup> ~~joining later~~  
Jim? - jury duty,

Sherr:

# Capital Spending Review

- When to delay or cut Capex without affecting revenue?
- General view is that w/revenue of 80

reporting to?  
Joe P. & Wally

6/14  
Tobias  
- John Mac  
Denes  
+ input

David alternative scenario of how to run business w/revenue of 10-20%. - Dan & his team will redo budget for actual of where we are; and will do new Capex plan in next few days; will take a couple weeks to develop scenarios; Joe P. is working on models for debate.

Wally - says needs know what product mix will be.

David - working on model that builds Capex by product, - separates product accts by sales channel. - have already done budget review from bottom up through channels; this is same model that Dan & Joe are using.

Tom - will have models when?

Joe P. - for discussion purposes by end of this week.

Just taken to review to re-negotiate.

- then all to review + comment ~~for~~
- also need
- must have before May 8<sup>th</sup> for earnings call. questions.

Sheri <sup>Get</sup> Jim up to speed.  
 ↳ designate someone to work w/ @ renegotiations.

Pat not this week, not next, but following week.  
 - meeting in Paris? w/ ~~deleted~~

- ② Organizational matters. - Tom
- will try to eliminate org. complexities

→ Pat meeting in Scottsdale <sup>12</sup> ~~Thursday~~ <sup>Sue Stefford.</sup> \* meet @ 4 hours.  
 - everybody on this call should be there!

- ② Conferences for internal people?
- Tom - Miami? Cancun?
- What the hell is going on w/ respect to these meetings?
- MNC?
- Service Delivery?
- Who are our event planners? List?
- need to cut these off! - lose dep. \$? O.K.

~~David~~

~~Management~~

Expense control policy - cost cutting  
memo from Joe P.

- 1) Consultants.  
temporary labor
- 2) travel  
↳ 2/3 of total cost structure is  
related to people.

John 3) Headcount - holding at 13,000  
- should be seeking some  
of Europe's reductions  
in May reports.  
(427) → gone from Europe.

David

- 36m obligated B's on carrier  
195m signed deals  
61m Prim targets  
Secondary targets  
600m

but £28m cannot meet if kick out  
only 2nd targets.

- will have some reciprocal deals.
- should have Q tee'd up by  
end of this week, so will have  
2 months to close.

- funnel building in MNC area (Peg)
- Media Entertainment group
  - kick off to NAB(v?) event
  - Constellation Ventures announced
- Financial markets
  - Chase \$250m (5yr - \$50m/year)
  - Deutsche Bank
  - Bear Stearns
  - Morgan Stanley
 sold broadband to them  
 TV/Media/Video
- Gov't markets
  - Navy Smartlink
  - Dren? project
- Next Gen markets
  - finished Exodus agreement
  - looking at outsourcing content
- Bandwidth Markets
  -
- Marketing
  - LANDOLP has preformed their presentation
  - how much \$ to spend? process? alternatives? options?
  - need corporate internet site?
- M+E
  - business plan.?

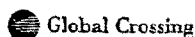
~~212-9040~~  
 212-9040  
 Regions  
 J.C.  
 - 2nd Q - 586 75M in revenue  
 . 886 75M in adj. EBITDA.  
 - full year 75M  
 75M BB  
 Canon  
 others  
 75. 330M - same for E.P. ITW miss?  
 Tom  $\Rightarrow$  Cannot continue to miss revenue! What  
 cutting expenses!  
 Financial Services vertical 110M off.

MAY 02 16:58 FAX

Debevoise &amp; Plimpton

4003

MAY 02 '01 09:25 FR FRONTIER CORP. 716 325 7539 TO 19734180583 P.04/03



DATE: May 2, 2001  
 To: Tom Casey  
 FROM: J.P. Clayton  
 SUBJECT: Narrowing the Gap

#### I. Overview

As we discussed on the phone last week, we are attempting to narrow the gap from the latest forecast and our North American original budget.

I have included additional detail to this memo. A summary of the key elements is identified below.

#### II. Revenue

Our analysis indicates that we could press the revenue line an additional \$125 million.

| Sales Channel             | Product Type | \$ Amount      |
|---------------------------|--------------|----------------|
| Carrier                   | Data         | \$ 40 million  |
| Broadband                 | Data         | 40             |
| Government                | Data         | 40             |
| Enterprise/Small business | Voice/Data   | 5              |
| Total                     |              | \$ 125 million |

\*Assumes MFN clause is worked out with Level 3.

We will not chase low margin voice business because of the high cost of access.

We must accept a portion of the revenue reduction from budget given the first quarter sales performance, and it appears that Affix will be off over \$30 million in recurring revenues.

#### III. COST OF ACCESS

We have targeted an extra \$60 million out of cost of access as compared to the most recent forecast. In addition, we are looking to certain commercial groups to maintain ARPM at budgeted levels, reducing MOU and saving \$18 million in COA.

However, given the revenue increase of \$125 million which will increase COA by \$43 million, the net gain will be approximately \$30 million.

GX-HEL-4384

07/22/2002 15:57 FAX

Debevoise &amp; Plimpton

40004

MAY 08 '01 08:25 FR FRONTIER CORP. 716 325 7639 TO 15724106563 P.03/03



Global Crossing

Page 2

IV. SG&A

The attached summary shows that we have targeted an additional 200 heads out of the North American business and SG&A reduction of slightly over \$30 million. The reductions by department are highlighted in the attachment.

V. CONCLUSION

The above actions result in narrowing the revenue gap from the original budget from \$340 million to \$215 million. This does not include any Financial Vertical or Solutions shortfalls.

From an EBITDA standpoint, the \$340 million miss from budget is lowered to a \$160 million variance from budget. Of course, you must get David Walsh to sign-up for the revenue enhancements and the various functions to accept the overhead reductions.

How you want to proceed given the impending re-organization is up to you. But, I believe that the actions identified are achievable.

Sincerely,

Joseph P. Clayton

GX-HEC-43541



07/22/2002 15:57 FAX

Debevoise & Plimpton

0006

Consolidated

|  | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 | 2030 | 2031 | 2032 | 2033 | 2034 | 2035 | 2036 | 2037 | 2038 | 2039 | 2040 | 2041 | 2042 | 2043 | 2044 | 2045 | 2046 | 2047 | 2048 | 2049 | 2050 | 2051 | 2052 | 2053 | 2054 | 2055 | 2056 | 2057 | 2058 | 2059 | 2060 | 2061 | 2062 | 2063 | 2064 | 2065 | 2066 | 2067 | 2068 | 2069 | 2070 | 2071 | 2072 | 2073 | 2074 | 2075 | 2076 | 2077 | 2078 | 2079 | 2080 | 2081 | 2082 | 2083 | 2084 | 2085 | 2086 | 2087 | 2088 | 2089 | 2090 | 2091 | 2092 | 2093 | 2094 | 2095 | 2096 | 2097 | 2098 | 2099 | 2100 | 2101 | 2102 | 2103 | 2104 | 2105 | 2106 | 2107 | 2108 | 2109 | 2110 | 2111 | 2112 | 2113 | 2114 | 2115 | 2116 | 2117 | 2118 | 2119 | 2120 | 2121 | 2122 | 2123 | 2124 | 2125 | 2126 | 2127 | 2128 | 2129 | 2130 | 2131 | 2132 | 2133 | 2134 | 2135 | 2136 | 2137 | 2138 | 2139 | 2140 | 2141 | 2142 | 2143 | 2144 | 2145 | 2146 | 2147 | 2148 | 2149 | 2150 | 2151 | 2152 | 2153 | 2154 | 2155 | 2156 | 2157 | 2158 | 2159 | 2160 | 2161 | 2162 | 2163 | 2164 | 2165 | 2166 | 2167 | 2168 | 2169 | 2170 | 2171 | 2172 | 2173 | 2174 | 2175 | 2176 | 2177 | 2178 | 2179 | 2180 | 2181 | 2182 | 2183 | 2184 | 2185 | 2186 | 2187 | 2188 | 2189 | 2190 | 2191 | 2192 | 2193 | 2194 | 2195 | 2196 | 2197 | 2198 | 2199 | 2200 | 2201 | 2202 | 2203 | 2204 | 2205 | 2206 | 2207 | 2208 | 2209 | 2210 | 2211 | 2212 | 2213 | 2214 | 2215 | 2216 | 2217 | 2218 | 2219 | 2220 | 2221 | 2222 | 2223 | 2224 | 2225 | 2226 | 2227 | 2228 | 2229 | 2230 | 2231 | 2232 | 2233 | 2234 | 2235 | 2236 | 2237 | 2238 | 2239 | 2240 | 2241 | 2242 | 2243 | 2244 | 2245 | 2246 | 2247 | 2248 | 2249 | 2250 | 2251 | 2252 | 2253 | 2254 | 2255 | 2256 | 2257 | 2258 | 2259 | 2260 | 2261 | 2262 | 2263 | 2264 | 2265 | 2266 | 2267 | 2268 | 2269 | 2270 | 2271 | 2272 | 2273 | 2274 | 2275 | 2276 | 2277 | 2278 | 2279 | 2280 | 2281 | 2282 | 2283 | 2284 | 2285 | 2286 | 2287 | 2288 | 2289 | 2290 | 2291 | 2292 | 2293 | 2294 | 2295 | 2296 | 2297 | 2298 | 2299 | 2300 | 2301 | 2302 | 2303 | 2304 | 2305 | 2306 | 2307 | 2308 | 2309 | 2310 | 2311 | 2312 | 2313 | 2314 | 2315 | 2316 | 2317 | 2318 | 2319 | 2320 | 2321 | 2322 | 2323 | 2324 | 2325 | 2326 | 2327 | 2328 | 2329 | 2330 | 2331 | 2332 | 2333 | 2334 | 2335 | 2336 | 2337 | 2338 | 2339 | 2340 | 2341 | 2342 | 2343 | 2344 | 2345 | 2346 | 2347 | 2348 | 2349 | 2350 | 2351 | 2352 | 2353 | 2354 | 2355 | 2356 | 2357 | 2358 | 2359 | 2360 | 2361 | 2362 | 2363 | 2364 | 2365 | 2366 | 2367 | 2368 | 2369 | 2370 | 2371 | 2372 | 2373 | 2374 | 2375 | 2376 | 2377 | 2378 | 2379 | 2380 | 2381 | 2382 | 2383 | 2384 | 2385 | 2386 | 2387 | 2388 | 2389 | 2390 | 2391 | 2392 | 2393 | 2394 | 2395 | 2396 | 2397 | 2398 | 2399 | 2400 | 2401 | 2402 | 2403 | 2404 | 2405 | 2406 | 2407 | 2408 | 2409 | 2410 | 2411 | 2412 | 2413 | 2414 | 2415 | 2416 | 2417 | 2418 | 2419 | 2420 | 2421 | 2422 | 2423 | 2424 | 2425 | 2426 | 2427 | 2428 | 2429 | 2430 | 2431 | 2432 | 2433 | 2434 | 2435 | 2436 | 2437 | 2438 | 2439 | 2440 | 2441 | 2442 | 2443 | 2444 | 2445 | 2446 | 2447 | 2448 | 2449 | 2450 | 2451 | 2452 | 2453 | 2454 | 2455 | 2456 | 2457 | 2458 | 2459 | 2460 | 2461 | 2462 | 2463 | 2464 | 2465 | 2466 | 2467 | 2468 | 2469 | 2470 | 2471 | 2472 | 2473 | 2474 | 2475 | 2476 | 2477 | 2478 | 2479 | 2480 | 2481 | 2482 | 2483 | 2484 | 2485 | 2486 | 2487 | 2488 | 2489 | 2490 | 2491 | 2492 | 2493 | 2494 | 2495 | 2496 | 2497 | 2498 | 2499 | 2500 | 2501 | 2502 | 2503 | 2504 | 2505 | 2506 | 2507 | 2508 | 2509 | 2510 | 2511 | 2512 | 2513 | 2514 | 2515 | 2516 | 2517 | 2518 | 2519 | 2520 | 2521 | 2522 | 2523 | 2524 | 2525 | 2526 | 2527 | 2528 | 2529 | 2530 | 2531 | 2532 | 2533 | 2534 | 2535 | 2536 | 2537 | 2538 | 2539 | 2540 | 2541 | 2542 | 2543 | 2544 | 2545 | 2546 | 2547 | 2548 | 2549 | 2550 | 2551 | 2552 | 2553 | 2554 | 2555 | 2556 | 2557 | 2558 | 2559 | 2560 | 2561 | 2562 | 2563 | 2564 | 2565 | 2566 | 2567 | 2568 | 2569 | 2570 | 2571 | 2572 | 2573 | 2574 | 2575 | 2576 | 2577 | 2578 | 2579 | 2580 | 2581 | 2582 | 2583 | 2584 | 2585 | 2586 | 2587 | 2588 | 2589 | 2590 | 2591 | 2592 | 2593 | 2594 | 2595 | 2596 | 2597 | 2598 | 2599 | 2600 | 2601 | 2602 | 2603 | 2604 | 2605 | 2606 | 2607 | 2608 | 2609 | 2610 | 2611 | 2612 | 2613 | 2614 | 2615 | 2616 | 2617 | 2618 | 2619 | 2620 | 2621 | 2622 | 2623 | 2624 | 2625 | 2626 | 2627 | 2628 | 2629 | 2630 | 2631 | 2632 | 2633 | 2634 | 2635 | 2636 | 2637 | 2638 | 2639 | 2640 | 2641 | 2642 | 2643 | 2644 | 2645 | 2646 | 2647 | 2648 | 2649 | 2650 | 2651 | 2652 | 2653 | 2654 | 2655 | 2656 | 2657 | 2658 | 2659 | 2660 | 2661 | 2662 | 2663 | 2664 | 2665 | 2666 | 2667 | 2668 | 2669 | 2670 | 2671 | 2672 | 2673 | 2674 | 2675 | 2676 | 2677 | 2678 | 2679 | 2680 | 2681 | 2682 | 2683 | 2684 | 2685 | 2686 | 2687 | 2688 | 2689 | 2690 | 2691 | 2692 | 2693 | 2694 | 2695 | 2696 | 2697 | 2698 | 2699 | 2700 | 2701 | 2702 | 2703 | 2704 | 2705 | 2706 | 2707 | 2708 | 2709 | 2710 | 2711 | 2712 | 2713 | 2714 | 2715 | 2716 | 2717 | 2718 | 2719 | 2720 | 2721 | 2722 | 2723 | 2724 | 2725 | 2726 | 2727 | 2728 | 2729 | 2730 | 2731 | 2732 | 2733 | 2734 | 2735 | 2736 | 2737 | 2738 | 2739 | 2740 | 2741 | 2742 | 2743 | 2744 | 2745 | 2746 | 2747 | 2748 | 2749 | 2750 | 2751 | 2752 | 2753 | 2754 | 2755 | 2756 | 2757 | 2758 | 2759 | 2760 | 2761 | 2762 | 2763 | 2764 | 2765 | 2766 | 2767 | 2768 | 2769 | 2770 | 2771 | 2772 | 2773 | 2774 | 2775 | 2776 | 2777 | 2778 | 2779 | 2780 | 2781 | 2782 | 2783 | 2784 | 2785 | 2786 | 2787 | 2788 | 2789 | 2790 | 2791 | 2792 | 2793 | 2794 | 2795 | 2796 | 2797 | 2798 | 2799 | 2800 | 2801 | 2802 | 2803 | 2804 | 2805 | 2806 | 2807 | 2808 | 2809 | 2810 | 2811 | 2812 | 2813 | 2814 | 2815 | 2816 | 2817 | 2818 | 2819 | 2820 | 2821 | 2822 | 2823 | 2824 | 2825 | 2826 | 2827 | 2828 | 2829 | 2830 | 2831 | 2832 | 2833 | 2834 | 2835 | 2836 | 2837 | 2838 | 2839 | 2840 | 2841 | 2842 | 2843 | 2844 | 2845 | 2846 | 2847 | 2848 | 2849 | 2850 | 2851 | 2852 | 2853 | 2854 | 2855 | 2856 | 2857 | 2858 | 2859 | 2860 | 2861 | 2862 | 2863 | 2864 | 2865 | 2866 | 2867 | 2868 | 2869 | 2870 | 2871 | 2872 | 2873 | 2874 | 2875 | 2876 | 2877 | 2878 | 2879 | 2880 | 2881 | 2882 | 2883 | 2884 | 2885 | 2886 | 2887 | 2888 | 2889 | 2890 | 2891 | 2892 | 2893 | 2894 | 2895 | 2896 | 2897 | 2898 | 2899 | 2900 | 2901 | 2902 | 2903 | 2904 | 2905 | 2906 | 2907 | 2908 | 2909 | 2910 | 2911 | 2912 | 2913 | 2914 | 2915 | 2916 | 2917 | 2918 | 2919 | 2920 | 2921 | 2922 | 2923 | 2924 | 2925 | 2926 | 2927 | 2928 | 2929 | 2930 | 2931 | 2932 | 2933 | 2934 | 2935 | 2936 | 2937 | 2938 | 2939 | 2940 | 2941 | 2942 | 2943 | 2944 | 2945 | 2946 | 2947 | 2948 | 2949 | 2950 | 2951 | 2952 | 2953 | 2954 | 2955 | 2956 | 2957 | 2958 | 2959 | 2960 | 2961 | 2962 | 2963 | 2964 | 2965 | 2966 | 2967 | 2968 | 2969 | 2970 | 2971 | 2972 | 2973 | 2974 | 2975 | 2976 | 2977 | 2978 | 2979 | 2980 | 2981 | 2982 | 2983 | 2984 | 2985 | 2986 | 2987 | 2988 | 2989 | 2990 | 2991 | 2992 | 2993 | 2994 | 2995 | 2996 | 2997 | 2998 | 2999 | 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3286 | 3287 | 3288 | 3289 | 3290 | 3291 | 3292 | 3293 | 3294 | 3295 | 3296 | 3297 | 3298 | 3299 | 3300 | 3301 | 3302 | 3303 | 3304 | 3305 | 3306 | 3307 | 3308 | 3309 | 3310 | 3311 | 3312 | 3313 | 3314 | 3315 | 3316 | 3317 | 3318 | 3319 | 3320 | 3321 | 3322 | 3323 | 3324 | 3325 | 3326 | 3327 | 3328 | 3329 | 3330 | 3331 | 3332 | 3333 | 3334 | 3335 | 3336 | 3337 | 3338 | 3339 | 3340 | 3341 | 3342 | 3343 | 3344 | 3345 | 3346 | 3347 | 3348 | 3349 | 33 |
|--|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|-----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Debevoise &amp; Plimpton

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|                                    | FORECAST |         | ADJUSTMENTS |         | OP PLAN |         |
|------------------------------------|----------|---------|-------------|---------|---------|---------|
|                                    | DOLLAR   | PERCENT | DOLLAR      | PERCENT | DOLLAR  | PERCENT |
| Revenue                            | 2,24     | 12      |             |         | 2,24    | 12      |
| License/SV                         | 1,28     | 7       |             |         | 1,28    | 7       |
| License/AMC                        | 46,38    | 261     | (1,00)      | (1,00)  | 45,38   | 260     |
| Koyote                             | 4,00     | 23      |             |         | 4,00    | 23      |
| Enroling                           | 70,13    | 418     |             |         | 70,13   | 418     |
| Jenkins                            | 13,62    | 110     |             |         | 13,62   | 110     |
| Bernard                            | 87,23    | 935     |             |         | 87,23   | 935     |
| Blumstein                          | 4,00     | 23      |             |         | 4,00    | 23      |
| Spiel                              | 52,07    | 408     |             |         | 52,07   | 408     |
| Total Sales/Support <sup>(1)</sup> | 203,20   | 2,289   |             |         | 203,20  | 2,289   |
| NA Networks                        |          |         |             |         |         |         |
| Emblitz                            | 92,24    | 1,032   |             |         | 92,24   | 1,032   |
| Shilley                            | 35,92    | 341     |             |         | 35,92   | 341     |
| Cojilly                            | 6,50     | 81      |             |         | 6,50    | 81      |
| Total NA Networks                  | 134,66   | 1,454   |             |         | 134,66  | 1,454   |
| Blender                            | 46,23    | 785     |             |         | 46,23   | 785     |
| Blender                            | 1,14     | 5       |             |         | 1,14    | 5       |
| Blender                            | 22,00    | 144     |             |         | 22,00   | 144     |
| Blender                            | 28,73    | 301     |             |         | 28,73   | 301     |
| Dale                               | 11,18    | 130     |             |         | 11,18   | 130     |
| Pelman                             | 51,05    | 488     |             |         | 51,05   | 488     |
| Diagman                            | 20,41    | 80      |             |         | 20,41   | 80      |
| Op Tease                           | 40,79    | 80      |             |         | 40,79   | 80      |
| Other                              |          |         |             |         |         |         |
| Kenner/OPB                         | 1,21     | 0,01    |             |         | 1,21    | 0,01    |
| Kenner                             | 4,46     | 34      |             |         | 4,46    | 34      |
| Internal Audit                     | 0,74     | 6       |             |         | 0,74    | 6       |
| Rick Mgmt                          | 2,43     | 2       |             |         | 2,43    | 2       |
| Clayton                            | 3,73     | 2       |             |         | 3,73    | 2       |
| Fredites                           | 0,68     | 4       |             |         | 0,68    | 4       |
| Curcio                             | 1,63     | 10      |             |         | 1,63    | 10      |
| Kenner                             | 17,38    | 189     |             |         | 17,38   | 189     |
| Total SG&A                         | 848,41   | 8,743   |             |         | 848,41  | 8,743   |

(1) Includes other functions for Bernard and Spiel.

(2) Includes reductions of \$5mm and \$6 heads to come from combined Enterprise/SGO groups.

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Debevoise & Plimpton

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Bad Debt

|            | FORECAST | ADJUST. | OP PLAN |
|------------|----------|---------|---------|
|            |          | MENTS   |         |
| Center     | 58       |         | 58      |
| Commercial | 1        |         | 1       |
| Commercial | 4        |         | 4       |
| Commercial | 15       |         | 15      |
| Commercial |          | 4       | 4       |
| Total      | 78       | 4       | 80      |

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 GLOBAL CROSSING  
 Res. #18634915  
 Moderator: Dan Cohrs  
 5/10/01 - 6:00 a.m. MT  
 Page 1

## GLOBAL CROSSING

Moderator: Dan Cohrs  
 May 10, 2001  
 6:00 AM MT

- Operator: Ladies and gentlemen, thank you for standing by. Welcome to the Global Crossing first quarter 2001 earnings release conference call. During the presentation all participants will be in a listen only mode. Afterward you will be invited to participate in the question and answer session. At that time, if you have a question, you will need to press the one, followed by the four on your telephone. As a reminder, this conference is being recorded today, Thursday May 10, 2001. I would now like to turn the conference over to Dan Cohrs, Chief Financial Officer of Global Crossing. Please go ahead sir.
- Dan Cohrs: Good morning everyone. Thanks for joining us this morning to talk about our first quarter results, which we were very happy with. Before I turn it over to Tom Casey to walk you through the quarter, I have to say, as always, that we will be making forward-looking statements and that our actual performance might be different from that implied in the forward looking statements, and that you should look at our SEC filings to discuss risk factors that could cause that performance to be different than what we talk about in the forward-looking statements. With that I'd like to turn it over to Tom and then we'll be available for questions and answers at the end.
- Tom Casey: Thank you very much Dan, good morning everybody. Thank you for joining us. I'm please to discuss with you and with Dan the progress that the company is making in our transformation from a carrier to carrier, to a value added services provider. I'm happy to say that once again the company has exceeded the consensus estimate of analysts for the first quarter performance. We experienced record results in cash revenue, service revenue and adjusted EBITDA.
- Let me touch on that for a minute. On the cash revenue line we had 1.613 billion dollars of cash revenue, 39% growth over the comparable quarter last year, and 5% growth sequentially. In service revenue we had 1.046 billion dollars, 10% sequential growth and 27% annual growth. And on the adjusted EBITDA line we had 441 million of adjusted EBITDA, 5% quarterly sequential growth, and 43% year-on-year growth. In addition we exceeded the Street consensus in the area that we have identified as most critical to our successful transformation as a company, and that is commercial services. Commercial service revenue for the quarter was the highest ever, with the largest sequential dollar and percentage growth rates. It was 7% sequential growth, and 9% year-over-year, so the sequential growth rate shows that we're accelerating progress in that sector that we've targeted.
- All of the numbers that I've quoted and that I'll talk about are on a pro forma basis, to provide meaningful comparisons to everyone. This quarter's strong growth, particularly in the area of commercial and service revenue, reflects what we talked about in our analyst presentation, which is our increasing focus on value added telecommunications services designed for, and offered to large global enterprises. And the transformation that we're making from a SME oriented customer base and sales force to the global enterprise space that takes better advantage and gets better value out of the unique assets that we have built.
- We're doing this by refining our product offerings to include the eight core services that we mentioned at analysts day, just to reiterate quickly, the broadband offering, a portfolio of VPNs, data services, voice services, conferencing, Internet access, metro services and hosting services. These eight core offerings are tailored to a relatively small group of global enterprises, by small I mean around 7,500, within very defined sales channels that are created to allow increased expertise in the sales force, and therefore increased customer knowledge and responsiveness. Just

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to repeat again, those verticals are carrier vertical, financial services, media and entertainment, next generation services, multinational corporations, government and the bandwidth markets.

Due to this focused sale strategy we think, we signed over 600 million dollars in new contracts with large commercial customers, since January of this year. To illustrate the rate at which we're building momentum with this kind of customer, the large commercial customer, the number of contracts we signed per month has more than doubled since January. And the value of the, the monthly total contract value has also approximately doubled since January. We think that's a good sign in terms of the accelerating rate of growth in this marketplace, and the overall number.

We signed agreements across all of our sales channels, but I want to highlight some specific names in the area of financial services and multinationals. Contracts we had in that period came from Axa, JP Morgan Chase, Chicago Stock Exchange, AIG, and Swift, which we've already mentioned. And these contracts indicate our continued success in the space of financial markets. In other verticals we signed significant contracts with the UK Magistrate's Office in the government vertical, Hoffman Laroche, GE Medical, Motorola, Warner Lambert Pfizer, Ticket Master, Polo Ralph Lauren, Proctor and Gamble, US Navy, Columbia Energy, Slumberger and others, for new contracts outside of the financial services market.

Before I get into the details on what drove our results, I want to talk for a minute about the market. I want to say that we delivered the performance that we guided the market to, and exceeded the analyst's estimates in what was an admittedly challenging environment. Everyone's familiar with American economic conditions that have affected the United States and the rest of the markets that we participate in over these last months, and I want to go into that a little bit. The environment posed significant challenges to us, but it also created some benefits for us. For example, while big customers deliberated longer in making IRU decisions, and were more cautious about large capital commitments, and we've seen that obviously in a number of industries, they also began to consider the long-term financial staying power of their suppliers. They also began to rethink their own ability and willingness to invest in large customer owned networks, and became more open to managed services from carriers like us.

Less capacity came into the market, what was to come into the market than was originally planned. Cable systems are being canceled and combined the flag TriCom and the flag level three proposals in Asia are examples of this. Lack of financing, we think will continue to inhibit incremental additions of supply, and in fact it created opportunities for us to pick up assets more quickly and less expensively than we otherwise could have, and we said in the analysts day presentation that we would be opportunistic about doing so, and we did so in the quarter.

Let me go in now to some of the specific results in the quarter. Total revenues are growing faster than projected, because we are growing our data revenues, as we promised to focus on. Fundamental growth is still there in the marketplace, backbone traffic is still growing, IP traffic is still growing. For telecommunications services revenue, on data products specifically, we had sequential growth of 16% this quarter, and annual year-on-year growth of 44%. Very strong. These strong recurring data revenues were driven by very substantial growth year-over-year and in quarter-over-quarter in commercial data revenue service, which includes, as you know, IP services, ATM services, frame relay, and private line. But it excludes the impact of IRUs.

Service revenue for carrier data was 23% sequential growth, 88% year-over-year growth, and the service revenue for commercial data was 12% sequential growth, which we think is quite strong, 24% year-on-year growth. On IP and ATM services, the sequential growth was 30%, year-on-year growth 79%. And in private line it was 12% sequentially and 39% annual, year-on-year growth.

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Moderator: Dan Cohrs

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Data products also increased as a percentage of total telecom services, and accounts for a higher percentage of our revenues than from most other telecom providers, which gives us comfort that our projections for strong growth in this field will continue to be met. Data as a percentage of total telecom services was 63% of our cash revenue, and 38% of our services revenue. As you can tell from these results, we continue to believe that we are well positioned for rapid growth in this area, and we have products and sales force designed to exploit that opportunity. We also continue to think as a result, that data will increase its percentage in the total mix of our cash revenue. As we are making this transition, obviously the revenue mix of global crossing is changing. For example, recurring service revenue, which as I've already said, excludes the impact of IRUs, will experience stronger growth going forward. The nearly 100 million of sequential service revenue growth in the first quarter, which is the highest dollar growth quarter-on-quarter ever.

End user voice, both commercial and consumer, is declining, and we expect to use voice services strategically as part of a telecom bundle of data and voice services offered to our core vertical customers. Other than use of voice as a bundle, as we have already talked about to you, we are de-emphasizing that and we are in fact transforming some of the actual customer base away from those services. We have talked about our voice over IP initiatives, where we believe we have the largest deployed voice over IP network in the world, with a capacity of over 2 billion minutes a month by the end of this year, and this is how we expect to continue to sell voice as part of a bundle of services to carriers and commercial customers, and make strong margins, benefiting ourselves economically.

Let me just sort of summarize, we think the company has had an outstanding quarter with a record performance, 1.613 billion in cash revenue, 1.046 billion in services revenue, 41 million in adjusted EBITDA and 12% quarter-on-quarter growth in commercial data services. I mentioned earlier that the financial condition of some of our competitors has allowed us to acquire capacity at a compelling cost basis schedule that we found very attractive. Although those purchases were new commitments, we are not changing our guidance on capital spending for the year. Because the new commitments will be offset by a combination of network efficiencies, use of our existing inventories, significant lower prices from vendors, in terms of the cap ex that we had budgeted, and we're actually spending at lower rates than we had originally budgeted.

Many of these new commitments were to acquire capacity, as I said, at attractive prices. Often at constructed cost basis, and obviously they were from industry players who were motivated. We think these new commitments will give us local fiber in places where buying makes more sense than building, it will allow us to acquire capacity faster than we could build it in markets where we project near term needs for more, at a lower cost base than we could otherwise obtain. It provides us physical diversity in the network as we implement a global mesh architecture, to go along with the MPLS deployment that we have advanced very aggressively. We have announced in fact, I believe, that we have the largest MPLS deployment in the world, of any carrier, and the physical mesh architecture will leverage that deployment very successfully for customers in the data services area, who are looking of higher quality of service and more reliable services.

So for all these reasons, we have reiterated our capital budget spending, our 10 billion dollar total and our 2001 increment capital expenditure plans for 2001. In addition we feel comfortable with the range of analysts expectations for the second quarter, and have not changed our guidance for the full year of 2001. With that I would open it up to questions and answer and either Dan or I would be happy to answer questions.

Or maybe not, as the case may be, operator?

Operator:

Ladies and gentlemen we will now begin the question and answer session. If you wish to register a question for today's question and answer session, you will need to press the one, followed by the

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four on your telephone. You will hear a three tone prompt to acknowledge your request. If your question has been answered, and you wish to withdraw your polling request, you may do so by pressing the one, followed by the three. If you are on a speakerphone, please pick up your handset before entering your request. One moment please for your first question.

Your first question is from Adam Quinton of Merrill Lynch, please proceed.

Adam Quinton: Hi Tom, a couple of questions, firstly just on your last point about the assets that you've picked up opportunistically as you said. I wonder if you could give us just a bit more color on where you've been acquiring assets, and specifically whether there's been any change to the underlying business plan, whether you've been able to pick up assets that would take you into a new metro market that you hadn't planned to be in, or whether you're just basically filling out the current business plan? That would be the first question. Second question would be, you talked obviously about the success you've had in the commercial space and new contracts that you're winning there. I wonder if you could give us a sense of the extent to which those contracts represent new business, growth and demand from those customers, or whether you are replacing existing providers and substituting for service that would have already been provided by somebody else? And then the final point, just on a part of the group that you didn't touch on, I think Marine had a very strong first quarter, its achieved 35% plus of your full year revenue target. Do you have any change to your outlook for Marine for the full year, or was that first quarter sort of an anomalously lumpy quarter?

T. Casey: OK Adam, thank you. In terms of the opportunistic acquisitions, there are no changes in the business plan there. We obtained capacity or facilities in local markets, long haul markets, that we would have obtained eventually anyway, and we did it in an environment where the people who were selling that were very motivated to sell, so there's no fundamental change in the business plan created by any of that.

On the commercial contracts, ¼ of the total commercial contracts that I mentioned were new, they brought new customers to us. Some of them, and I don't have the exact percentage, but some of them involved replacing existing providers and some of that involved new services from the customer.

On Global and Marine business, you're right. Global and Marine had a very good quarter, one of the reasons that we purchased Global Marine, is we saw it as having the ability to generate very strong performance during this period of time, and obviously we took their performance into account when we came up with our full 2001 year plan. It is a lumpy business, its performance reflects the schedule for the installation of various cables, and as I think we said in the press release, the first quarter was very strong as a result of, among other things, APCM.

A. Quinton: I guess just going back to commercial, one of the things I was trying to get a sense of was the extent to which those commercial contracts represent business that was new in the sense that it reflects the strength of your global network, and was there any business that other folks couldn't have won before that the customers couldn't really have got from anybody before?

T. Casey: I think some of it is, I can't quantify specific percentages of the total for you Adam, but if you look at the customer list, there was a number of international companies on that list. And there are others who for contractual reasons we didn't name, that almost a very substantial percentage of that business is new international services, data services principally, where we went in and offered them a service that they were not getting from their incumbent suppliers.

A. Quinton: Thank you.

Operator: Your next question is from Ro Chopra of Deutsche Bank, please proceed.

- Ro Chopra: Good morning Tom and Dan. I was wondering if you could help me with a couple of questions, first of all I noticed there's a little bit of weakness in the voice revenue stream, not that that's bad or anything, but how comfortable are you that it can be replaced by other segments, by the other revenue segments? And the second part of that is, can you give us some detail into Global Crossing's solutions? Maybe some key wins, and how is it tracking?
- T. Casey: On the voice sector, I'll let Dan speak to that. But generally speaking Ro, as you know, the first quarter, what we did in voice is we saw a couple of interesting things going on. One, we think the average revenue per minute in the voice sector; the rate of decline moderated somewhat. So while prices declined, they did not continue to go down as hard as we saw at the end of last year, and at the beginning of this year. And we also scaled back the effort; with the wholesale voice business you have fairly good ability to look at your customer base. We follow the credit worthiness of those customers fairly carefully. As we saw the market turn at the beginning of the year, we began to be very diligent about managing our credit risks with those companies. So some of that scale back is a result of that. So we basically have some degree of control over the amount of revenue in that sector, and we managed it in the first quarter for those reasons.
- With respect to solutions, solutions is organizing, we are in multiple conversations, and we would expect to have announcements for you within this quarter on some substantial wins. We are in multiple complex conversations. As you know, solutions is a very complex proposal and it takes time to work through with the customer the technical performance as well as the economic performance requirements of the contract. We are very happy with that, we are exploiting some of the solutions wins, like Swift for example, to help fund the development of some of the VPNs I talked about in the core network. We'll have the MPLS deployment is already being a part of the support for those networks, and when we go in to solutions customers, we get to show them the deployment that already exists, we get to show them the MPLS deployment that already exists. So we have an ability to create these solutions contracts for incremental cost, which is allowing us both, we have strong technical performance from what we've already done, and it also allows us to be strong in terms of the economics of the deals. So we continue to remain optimistic about that business, although it is taking a long time, not a long time, but the sale process itself for the more complex bids just takes longer than a normal sale. Dan.
- R. Chopra: Do you still feel that you'll still hit your 31-38% growth in commercial services, based on what you're saying?
- T. Casey: Yes.
- D. Cohrs: Ro let me make a couple of comments there, actually on your last point there. If you take the sequential growth that we just delivered in commercial services, its 7% sequentially. I mean simply compounding that gets you to 31% for the year, assuming you just did the same thing we did in the first quarter. So we think we're right on track to deliver the kind of commercial growth that we talked about at analyst day.
- Let me go back to your comment, just for one second on voice. You said that we saw some voice weakness, a couple of points there. One is, as I look at what we expected, and also what the Street expected, there was a little bit of weakness in voice, and I see that your particular estimate was higher than the analysts consensus for voice, so you were probably a little more bullish on voice than the rest of the Street. Compared to the consensus -
- T. Casey: I think he was more bullish on us.
- D. Cohrs: On us, than the rest of the street, OK.



T. Casey: For which we're grateful Ro.

D. Cohrs: But there's a touch of weakness in voice compared to consensus, and also compared to our own guidance, but it breaks out with actually more strength in commercial voice, that is end user commercial voice was stronger than what we expected. And wholesale voice was just a touch weaker. But that actually doesn't concern us, because the wholesale voice business is something, which you can kind of dial up and down a little bit as you go through the year, depending on how your numbers are coming in.

R. Chopra: I didn't mean to say voice being low is bad, so don't worry about it.

T. Casey: Let me make a point about the commercial growth rates for the US too, and that is that when had analysts day, we were very explicit about the fact that we are repositioning the customer base, we're transforming the product portfolio, we are trying to transition out the sales force, and we think that there will probably be somewhere between 30-40% of the sales force that we had at that time, or at the end of the year, that leaves the company, a new 30% or so comes in and will grow the sales force again as well, on top of that. So we said that we believe that our growth will be back end loaded as in the year. So as Dan said, if you just compound our first quarter growth rate, we have a 31% annual estimate, but we have said all along that we expect to see more progress in the back half of the year than the first half of the year. And one of the things that we were so encouraged about was, as I mentioned, the win rate, the contract win rate was doubled between April and January, and that is evidence to us that our plan is actually working and that our rate of growth for these services is accelerating, and we expect it to continue to do so through the end of the year. So we feel good about the projections that you mentioned on that front.

R. Chopra: Thanks.

Operator: Your next question is from Floyd Greenwood of Prudential Securities, please proceed.

Floyd Greenwood: Good morning, I just have a couple of very quick questions. Could you give us a sense as for what kinds of drivers of demand you're seeing these days? And how maybe demand is shifting as the economy evolves? And secondly I just wanted to ask about pricing, and if we're seeing some stabilization in pricing in the corporate market?

T. Casey: On driver of demand, for us in particular, because we are specializing in data services, what we see is customers are looking to make their own operations much more efficient so they can save money, become more competitive in their own markets, and they are looking for solutions. Not solutions in the technical sense, but they're looking for somebody to come in and offer them a more efficient data services network and broadband data services in particular. So our drivers of demand are IP and the other data services generally.

We measure, every IP network does this, but we measure our IP backbone traffic every five minutes or something, the engineers tell me. And the rate at which the IP traffic in the backbone is growing are something between around 450% per year, still, even during the first quarter when the macro economic conditions got difficult. So IP traffic and bandwidth demand continues to be very strong. Because we have focused our organization, our products, and our assets on that marketplace, we think we're in the right place to capture the benefit of that increase in demand. How it's shifted, we have less of a shift than others, because we didn't have as much voice traffic as others. I'm sure that others are finding that particularly margin contributions is shifting around, away from voice and toward data services, and for us that's less of an issue because we have less voice.

I think in the first quarter we had something like 38 million dollars of kind of legacy consumer voice revenue total. We don't market that at all, so it's just not an issue for us, it's not material to us. In terms of pricing, as I mentioned before on the wholesale front, we see that pricing continues to decline, but the rate of decline is stabilizing. And we've often said that we expect, and have budgeted and projected, that prices will decline essentially continuously in our industry, because costs are continuously declining, and demand elasticity's are greater than one. And in a market in which costs decline, and demand elasticity's are greater than one, it's the rational strategy to reduce prices, because your overall performance improves, and that's exactly what we expect to see.

You know, I hope, that we've geared some of these statistics, but the average per unit cost in our industry is declining at rates between probably 35% and 55%, when you look at the various elements. We've said that when you introduce voice over IP into the voice network, that we will reduce the unit costs of the voice traffic, again thinking about the various elements of costs, anywhere between 25-30% and 75%, depending on the cost element. So in a market in which costs are declining substantially year-on-year, and in which demand is increasing, the rational strategy is to have prices decline. So the issue really for us is, are prices declining at a rate that exceeds cost declines, and is demand increasing in response to decreases in price, and so far that's working well for us and we feel good about that.

But I would just reiterate to you that in a market with these kinds of costs conditions, and demand conditions, prices are going to continue to decline. We budgeted for that, planned for it and we expected it.

F. Greenwood: Great. That's helpful. Thanks

Operator: Your next question is from Riyed Said, from Friedman Billings Ramsey. Please proceed sir.

Riyed Said: Thank you. Good morning, it's Riyed Said. Tom, first a question for you, if you could provide a bit more color. You talked about the fact that some of the Enterprise customers are taking a little bit longer. If you could sort of quantify a little bit about what you're saying, from the trend perspective there, number one? Then number two, if you're seeing any changes with respect to the competitive behavior? You mentioned that you win rate has been increasing. Have you seen any changes, for example, in terms of the types of competitors and how they're reacting?

And then, Dan, a question for you, can you comment on the liquidity position? I know you're expecting the ILEC sale to close next month. But, just in terms of cash on hand, whether you've drawn down any of the \$1.5 billion available from the credit facility; just the overall liquidity position? Thank you.

T. Casey: OK, in terms of the timing for closing out the customer wins, I mentioned that it's getting longer on the solution side, which is again, those large complex, and in our case, generally inter-regional or global networks. What we see, as a result of, we think, the macro economic conditions, is that customers are more motivated, than they were, in the past to turn to outsource their network service business; to outsource their IT and their communications services. It allows them to have better performance at a cheaper price, and it allows them to reduce their own expense run rates.

So, in fact, part of what we saw out of these conditions, you know, I said it's a mix of positive and negative attributes. One of the positive attributes is that we actually think that there is more overall demand for the kinds of services that we provide into the market place than there might have been, if the economy weren't so challenging. In terms of the normal enterprise customer, those customers are motivated, again, by the same desire to increase their own internal operating efficiency. So, when we offer them a service that is either cheaper than, or creates more

efficiencies than a competitor, then we have success. We haven't seen that sales cycle extend itself materially. It's really in the more complex things, and that's simply because the stakes are higher.

In terms of the competitive behavior, we occupy a position in the market place that we are very aware of and we're aware of its advantages. That is, we do not believe that we have to compete on pure raw transport around the world, in every market in which transport is offered and sought by customers. We have a global network. We can offer, even on the transport layer, we can offer services between the [unintelligible] that other carriers cannot offer on an integrated network. Our customers know that, having one integrated network provides operating efficiencies and increases quality. So, they understand that there's a differentiation between an integrated network and a network that's created by putting pieces together, from different carriers.

If we see irrational behavior, we forego it. And, as we said earlier in the year, we expected, because of the increase in capacity in the Atlantic, that prices there would be difficult and therefore we projected less than 2% of our total revenue would come out of the Atlantic, because we wanted to give ourselves the ability to simply not participate in that behavior.

What we're seeing now is, even in cases where there is price differentiation between a competitor and us, customers are increasingly concerned with the stability of their supplier. I mean it doesn't do them a lot of good to save 5% if the vendor from whom they purchased the supplies is not going to be around in a year, it's going to be a totally different company. So, that actually is a problem or that issue is to some degree a self-policing issue, because behavior that, you know, our carrier customers are very sophisticated companies. They understand what is going on. So, we're actually getting some market benefit from that.

Dan, will you comment on the liquidity point?

D. Cohrs: Yeah Riyed, your last question on liquidity is that we will expect to report about \$950 million of cash on the balance sheet when we file our Q. And, we have about \$350 of un-drawn balances in the revolver. Also, as I think everyone on this call knows, we said that we expect the sale of the ILEC to close in June, and we will receive a check for \$3.5 billion when that closes. We recently slightly adjusted the terms of that deal. Part of the adjustment in those terms was a specific provision for expedited closing, so we now expect closing in June.

R. Said: OK, Dan, just a question follow up on that, my assumption is that, net of taxes and the repayment of the bridge loan that net proceeds are about \$1.6 billion. Is that about right?

D. Cohrs: Yeah, that's probably pretty conservative. We're still doing our tax planning, but the way that would work is that you would take \$3.5 billion, subtract some taxes and also repay a \$1 billion bridge loan that we have against that sale. And, I think your calculation there is probably a little conservative.

R. Said: OK, great. Thank you, guys.

Operator: Your next question is from Dan Fletcher of Lehman Brothers. Please proceed sir.

Dan Fletcher: Thank you, and congratulations. It's really good to see a company shifting towards commercial services. I have three quick ones here. You talked about the doubling of the number of contracts and the dollar amount of the commercial services revenues. Can you maybe give us a sense for how many customers and/or contracts were signed in the quarter? Secondly, you mentioned that you're comfortable with the second quarter consensus. Can you maybe give us a sense as to what exactly that is? And then finally, just more generally, on the IRU side, are you seeing any change

in buying behavior? Are customers requesting any different types of terms, in terms of timing and cash flow? Or, is it just the large carriers doing business as they typically do? Thanks.

- T. Casey: On the number of contracts, I actually had a sheet, at one point or another, which went on for about four or five pages and I can't possibly count them all here. But, it's a lot. I can't count that many. It's a lot, Dan. It's several pages worth of just lines of names of companies. And we feel good about some of the marquee names that are on there. Some of them are quite demanding and sophisticated and have some powerful internal people, who can make some strong judgments. So, we think that that is indicative of the success that we're going to have in that sector over time. It's not going to be an overnight process, but this transition into commercial services is clearly what we're committed to and we're moving on it.
- D. Fletcher: Just before you leave that, you did mention the dollar amount of new contracts signed. Do you have that number handy? That would be real helpful if you did.
- T. Casey: The per-contract number, or the total number?
- D. Fletcher: The total number.
- D. Cohrs: We said earlier \$600 million of contracts signed in the quarter.
- T. Casey: Yeah, right. Over \$600 million.
- D. Cohrs: That's \$600 million, specifically, of commercial contracts and it's large customer commercial contracts.
- T. Casey: Right. It doesn't count the carrier business or the small and medium size business. OK, with respect to the second quarter, I'm going to leave that to Dan. And, on the buying behavior of our carrier customers, we think that underlying demand in the carrier business continues to increase. And we have essentially almost continuing conversations with carriers around the world about providing supply to them. We hear that, you know, people talk about converting IRU purchases to lease purchases, and being able to spread out some of the cash flows.
- We actually don't see that a lot, to be honest. People talk about it, and the market talks about it. Sometimes, we have conversations with carriers about it, but so far, at least, there is sort of a continuation of the business that we have historically seen. So, right now, there is no material shift in that kind of behavior or in the timing of the cash flows that would result from that sort of a shift. We expect, going forward, that that will continue. Carriers cannot be doing their entire business on short-term leases. They're going to have to build networks; not build them in the sense that we build them but building them in the sense of buying some underlying facilities from people like us and then have some occasional usage that they can buy on a lease basis.
- But, a large global carrier providing sophisticated services to demanding customers, particularly in an environment where underlying fundamental demand is increasing, as we see it, they're simply not going to be able to shift their entire business that way. Dan, would you get the second part?
- D. Cohrs: Yeah Dan, on your question about the second quarter, in a Regulation F-D environment, our lawyers have repeatedly advised us that we can't quote consensus numbers. But, I can tell you a couple of things. One is, the way we calculate the consensus, if we hit the consensus, which we expect to do, that will put us right on track for our growth targets for the year. The other comment I would say is that we calculate the consensus of about 13 analysts that follow the company and I just looked at your forecasts, and specifically your forecasts are a little below what we calculate as

the consensus. So, I hope that's helpful, but I just can't quote consensus numbers, on the advice of my lawyers.

D. Fletcher: OK, understood. Thanks.

Operator: Your next question is from Joe Galzerano of CIBC World Markets. Please proceed.

Joe Galzerano: Yes, good morning. Dan, I have a couple of just number questions for you. If you can give us the total debt? If you can maybe talk about I know that at the end of last year, or at the last conference call, you gave unrecognized backlog. If you can update us on that? And then, if you can just give us some more information on the data revenue, and what I mean by that is just a breakout between commercial carrier data revenues? Thank you.

D. Cohrs: Sure Joe. The total debt that we'll report at the end will be about \$8.5 billion, and of course, that will come down once we close on the ILEC in June. The backlog number that we reported at the end of the fourth quarter, we said that the backlog exceeds \$2.5 billion. And, during the first quarter, that backlog increased. We don't give precise numbers on the backlog because frankly it's hard to calculate the backlog extremely precisely, because some of the contracts in our backlog do involve forecasted revenue amounts. And contract-by-contract, some of these contracts are actually forecasts. So, we prefer not to give really precise numbers because there are some projections, but the approach we take is that we put out an number for backlog that we feel extremely comfortable with. That is, there's a conservative on when I say \$2.5 billion. So, during the quarter, from \$2.5 billion, the backlog did increase.

J. Galzerano: OK, and then the data breakout between commercial?

D. Cohrs: Oh yeah, the data. You know, we just don't break that out specifically, so that level of granularity, I think, is something that no carrier really projects. But, we did give you growth rates. If you go through the press release, you will see that we put growth rates in there for the carrier data and commercial data breakout. Those are in the press release and you'll see that carrier data products grew at slightly faster rates than commercial data products, although we were quite happy with the growth rates for the commercial data products.

J. Galzerano: Thank you.

Operator: Your next question is from Aryeh Bourkoff, of UBS Warburg. Please proceed.

Aryeh Bourkoff: Yes, good morning. I have just a few questions here, Dan and Tom. First, if you could talk about the breakdown of the Cap Ex savings? You mentioned \$625 million. Could you provide more granularity there, and break that out? Secondly, if you could talk about, maybe in specific or general terms, the breakdown of our customer base? What percentage of your customers are investment grade, or that high a quality nature on the credit side? And then thirdly, could you comment on how frequently do you compete for contracts on just a per-region basis? You mentioned the Atlantic, but are most of your contracts that you're receiving on a multi-regional basis? Thanks.

D. Cohrs: Oh the Cap Ex savings, you're asking about the Cap Ex savings that will offset the new commitments we made in the quarter?

A. Bourkoff: That's right.

D. Cohrs: Yeah. We went through our Capital Spending plan very carefully, and let me give you a flavor for this. Remember, there are several elements to this. Remember, in the year 2000, we actually had

an original capital plan there that was a little over \$5 billion, and we've said recently, that actually \$1 billion of that will slip over into 2001. And so, it's not at all new or surprising for us to find that we're spending capital more slowly than we budgeted for because we tend to budget somewhat conservatively when it comes to capital. That is, essentially, over budget. We're now halfway through the year, almost, and we see that the actual spending, again, is taking place a little slower than what was planned and budgeted for. So, that's a significant part of what we're talking about.

The other elements of it are just across the board in everything we buy. We're seeing that we can go negotiate good prices with suppliers and so we've factored some of that, and adjusted some of our original budgeting just based on that. We've also been very disciplined about going through our network and actually using inventories that were there but not necessarily being used, as we improve our management of the network and some of the systems that we have in place for inventory management. It just allows us to be actually significantly more efficient than we ever forecast, in terms of using inventories and so that's part of it. We simply don't need to buy as much equipment because we're using inventories that we already have.

So, when we put all that together, we came up with numbers that were of the same magnitude as the new commitments we made. So, we're actually not changing our Cap Ex guidance for the year.

- A. Bourkoff: Is it fair to say that the Cap Ex after the second quarter, when you really complete your network, will come down towards the end of the year, on a sequential basis?
- D. Cohrs: I'm sorry, say that again, Aryeh?
- A. Bourkoff: The Cap Ex, per quarter, sounds like the network should be basically finished, I think, at the end of the second quarter, if I'm not mistaken. So, will the Cap Ex, on a quarterly basis, come down, sequentially?
- D. Cohrs: Yeah, I would expect it to come down, somewhat. The network will be finished in the second quarter, but we still have East Asia Crossing under construction. Remember, there're significant capital dollars going into East Asia Crossing, through the remainder of this year. And, also remember that, some of these payments to the large vendors, when you're doing sub-sea construction, or any construction, the payments to the vendors lag the actual construction process. So, I mean, we'll put systems into service, and then still be making payments to vendors as we do final testing, and things like that. So, it certainly should start coming down, but there are lags in that process.
- A. Bourkoff: OK, and the customer base being investment grade, or the high credit quality?
- D. Cohrs: Yeah. We've studied our customer base very carefully. Let me make a sort of overall statement that we think we're in pretty good shape, in terms of our customer base, maybe compared to some other carriers that you've seen. We have a very, very small number of what you might call Dot Com customers, really truly a handful of companies that would qualify as Dot Coms. One of those is Exodus, which is a pretty well established Dot Com.

There are, in our customer base, 650-some carrier customers. And there have been a couple of customers that we have that have actually filed for bankruptcy recently. You've seen those filings, and we've been listed as a creditor. I think there is actually some misinformation that is-I shouldn't say misinformation; I should say misunderstanding, of some of our exposure that has been floating around in the market.

ViaTel listed us as a fairly significant creditor. In fact, we have very little exposure to ViaTel, maybe something like \$2 million of exposure to ViaTel. There was a statement made in their filing that they have 128 STM-1s, which is sort of true. They actually have access to 128 STM-1s, for restoration only, as part of the deal that they did with level three in conjunction with the yellow cable. But, they actually owe us no money on that. So, our net exposure to ViaTel is only in some wholesale minutes business, which is now very small and it's fully reserved.

And, that's pretty much the situation across the board. We watch any carrier that we think is marginal, we watch and monitor very, very carefully. And, now I'm talking about the wholesale minutes business here, which is a run-rate business. So, if 30 days or 60 days go by, and they're late on their payments, we're on top of it and we're cutting them off and we're also reserving against those exposures. Those exposures tend to be quite small, because they're run-rate type exposures and we can cut them off.

In the IRU business, we collect cash in advance, when we sell. So, if we don't collect the cash, we don't activate the circuits. So, in that business, we have really very minimal exposure. So, we think we're in pretty good shape on that front.

A. Bourkoff: Any significant increases in accounts receivables during the quarter?

D. Cohrs: Sorry, in what in the quarter?

A. Bourkoff: Accounts receivable.

D. Cohrs: No, no real patterns there that are disturbing.

A. Bourkoff: OK, and the last question was on when you compete for customers, do you do it on a regional basis, or on different regions, or just specifically?

T. Casey: We can compete in either one, obviously, and it depends on what the customer requirements are. Our advantage, our competitive advantage, we think, is in the inter-regional or global environment. Therefore, we will target those kinds of customers that have a need that goes beyond any regional borders. And in fact, that's where we are finding great success. So, I don't know exactly what the distribution of competition is, but we compete in both.

We win some Europe-only services. We've won some Asia-only services. We've won some North America-only services, but we actually mostly target the inter-regional services.

A. Bourkoff: OK, thank you very much.

T. Casey: OK. I would just say we're coming to the end of the hour, so maybe one or two more questions, if there are any?

Operator: Your next question is from David Takata, of Gerard Klauer Mattison. Please proceed.

David Takata: Hi, good morning. I have kind of a three-part question, or three separate questions. You didn't talk on this conference call about, I guess I forget your term, but kind of the regional swaps of capacity by some of your carrier customers, specifically. Was that a significant factor in either signing new business? Has that been helpful to you? Was there an increase in those regional swaps for existing customers that are finding that it has some benefit?

The second one is Broadwing announced a Gigabyte Ethernet initiative, here at Interop this week. I kind of wondered what your thoughts are on Gig-E? And the final one is, I kind of wondered if,

GLOBAL CROSSING  
 Res. #18634915  
 Moderator: Dan Cohrs  
 5/10/01 - 6:00 a.m. MT  
 Page 13

with your global focus, you've seen an increase in your, I guess global 7,000 sort of customers asking for wavelength purchases during the quarter?

T. Casey: OK, Dave, first with respect to regional swaps, we did no swaps of capacity back and forth, between carriers. So, that's the answer to that. Broadwing, the Gigabyte Ethernet, I mean, look Gigabyte Ethernet will be one of the dominant protocols by which customers access the network. You know, we're offering it and others are too. I think the customers will use it. It conforms easily with their existing LANs and their own operations. So, it will be one of the significant protocols, with respect to connecting customers onto networks and we'll have it-we have it.

The wavelengths are increasingly popular and attractive to customers. We've made announcements of some of the ones that we have sold and so, yes, we see that there is increasing demand for, and utilization of, wavelength.

D. Takata: On those customers that are buying the wavelengths, does that essentially preclude those same customers from buying any of the other value-added services? Or, can you also sell services to those same customers?

T. Casey: We have a portfolio of services. We can offer them a dim wavelength. We can offer them, you know, a lit wavelength. We can offer them any number of things, some of which would include service capabilities and some of which are just pure transport. So, part of what we do in our network is we try to meet the customers' needs in a variety of different manifestations or methods, and so we can do both.

D. Takata: OK, thank you.

T. Casey: Yeah.

Operator: Your last question is from Frank Governali, of Goldman Sachs. Please proceed.

Louanne Serio: Good morning, this is Louanne Serio [sp], for Frank Governali. Pretty much our questions have been answered, and congratulations. If you can just drill down slightly more on these capital commitments. Is it possible to give any kind of sense on the kind of revenue generation you might expect out of the \$625 in capital commitments? You mentioned the \$500 now that you've got contracted. And, you mentioned that your business plan hadn't changed and you were taking advantage of the environment in opportunistic acquisitions here. I'm just curious. I would assume it's safe to assume you'll continue that. Could we possibly see any scale back on Cap Ex, associated with the cheaper infrastructure buys out there?

T. Casey: OK, I'm going to Dan, you can do the drill down. But, let me talk generally about the business plan issue and the overall impact on Cap Ex projections. Then Dan can talk about the other part of the question.

We've said, since the market has begun to get stressed with respect to capital availability, we have said that we will look to see where we can buy facilities or capacity that would advance our business plan in ways that are cheaper or faster where we need it, then we could do it ourselves. And that's what we're doing and we will continue to do that. We will buy local network facilities, if we can find them. We've said, frequently, that we're neither interested in nor pursuing buying local CLECs, because in most cases their debt levels are greater than we want to absorb in an acquisition. But we can buy assets and we're doing that.

With respect to our plan to have one of the leading global IP networks, I've talked about voice over IP. I've talked about MPLS and we have a meshed architecture in the network now. We're

GX-HEC-417



going to have an increased meshed architecture in the network, as we develop over time. So, where we can accelerate that process cheaply, we will do that.

The impact on Cap Ex, I think, over time is that we think we'll be able to get a bigger and better, in terms of more diverse paths, more redundancy, better quality and throughput, less latency network, cheaper and faster than we could under the conditions that we were planning on back at the beginning of the year 2000, when we first gave out our \$10 billion estimate. So, I think you're right that, for the same amount of money, we should have a better network, faster than we might otherwise have hoped. Dan, there was another question.

D. Cohrs: Yeah Louanne, you asked, we made some new capital spending commitments during the quarter and how that would affect revenue. It's actually part of our business plan. As Tom said, we were sort of opportunistic in acquiring some capacity in certain markets, in certain places, that we might otherwise would have had to build. So we bought some capacity in various markets. But, it actually fits into our business plan. In other words, we were acquiring things that just go into the network, and providing either local fiber that we might have had to get in some other way, or some redundant capacity, for more diversity, and things like that, that Tom talked about.

So, it's not like adding new capacity in the network, where you want to look for a particular ratio of revenue to capital spending. It's not that type of spending that we're talking about. So, it's really hard for me to say that there's a specific revenue impact. It's more like part of our network build in fleshing out the business plan.

T. Casey: Also, I would say that part of what we look at when we make these kinds of judgments is whether, not just here but generally Cap Ex is, we want to do three things. We want to enhance revenue and revenue potential. We want to decrease expenses so that we replace a more expensive way of doing business with a less expensive one and improve quality. So, all three of those things are at work all the time in the business plan. When we find opportunities to do that, those are the ones we examine. OK?

OK. We've been on for the hour, so if I might, let me wrap this up just with the concluding remarks about that we think we had a strong performance overall, in the first quarter, in a difficult market. We have not, as you all know, we have not lowered our guidance over these last months, as so many other people have. When we exceed our guidance, we think that's an accomplishment. We continue to believe that our progress in the commercial space, and particularly in the commercial data space, is as we had planned it would be, we're making progress there. The transformation is taking root. Our people are out banging on the doors and making good progress and getting corporate enterprise accounts. The other markets are moving forward, as well.

So, we feel good about our performance in the first quarter, and as we've said a couple of times here, we're not changing our guidance for the year. So, we're going to go back to work now. We thank all of you very much for participating. Goodbye.

Operator: Ladies and gentlemen, that does conclude your conference call for today. We thank you for participating and we ask that you please disconnect your lines.

## CONFIDENTIAL

From: Rossi, Kirk  
 To: Perrone, Joseph P  
 CC:  
 BCC:  
 Subject: Debt covenants and capacity sales{F}  
 Date: 5/17/2001 9:23:16 AM

**Attachments:**

Sr. Secured RG Covenant New Forecast\_05.16.01.xls  
Sr. Secured RG Covenant New Forecast\_05.11.01.xls

What a diatribe! This is the definition of panic....

-----Original Message-----

From: Millner, Hank  
 Sent: Wednesday, May 16, 2001 7:35 PM  
 To: Gorton, Jim; Dullabh, Susan; Klapper, Marty; Tobias, Glenn; Rossi, Kirk  
 Cc: Perrone, Joseph P; Cohrs, Dan  
 Subject: FW: Debt covenants and capacity sales

I wanted to make sure you were aware of the following situation. The emails below refer to the very serious potential impact of first quarter EBITDA within the GX Restricted Group falling so substantially below plan (due to the company's reliance on EBITDA from AGC which is Unrestricted for purposes of the bank facility). While we are awaiting Restricted Group financials from Accounting for year-end 2000 and first quarter 2001, Structured Finance has attempted to back into Restricted Group EBITDA numbers based on information contained in the Global Crossing and Asia Global Crossing earnings releases. Based on this analysis (attached below), the model shows minimal compliance with the ratio of Debt/EBITDA. The analysis is based on imprecise EBITDA estimates, and may well underestimate the amount of debt in the Restricted Group. While the model accurately reflects our debt issued to third parties (i.e. bank facility, senior notes, Frontier debt), we rely upon information from Accounting regarding Capital Lease Obligations and from Treasury regarding intercompany loans from Unrestricted Subsidiaries to the Restricted Group, which we are still awaiting. For the time being, we are using historical balances as of September 30, 2000 for these categories, but additional debt from these categories could be significant and result in a covenant violation.

The consequences of violating this financial covenant are SEVERE and the time period in which to fix it is SHORT:

- \* First Quarter financial statements are due to the banks on May 30 (2 weeks)
- \* A violation would be an immediate Event of Default with no cure period
- \* The Event of Default may require a press release
- \* Global Crossing would immediately lose the ability to borrow under the facility to fund operations
- \* The lenders will either terminate their commitments under the facility, make the loans immediately due and payable, or both
- \* Should the lenders accelerate the loans, there would be a cross-acceleration of Global Crossing's

\$3.8 billion of senior notes.

I would not want to try to refinance \$6 billion in this or any other market conditions. Needless to say, this situation requires immediate attention. Dan has suggested that I work with Joe Perrone on this.

As I see it, we have two options:

- \* Make adjustments to the Restricted Group to produce financial statements that we are confident will result in compliance with the ratio, or
- \* Get a waiver from the bank group

There are just a few levers that we can pull to improve the ratio of Debt/EBITDA. These include:

- \* Modifying the Restricted Group (effective March 31) to include positive EBITDA subsidiaries that are currently Unrestricted
- \* Modifying the Restricted Group (effective March 31) to exclude negative EBITDA contributors that are currently Restricted
- \* Reducing debt within the Restricted Group (effective March 31) by clearing any intercompany loans from Unrestricted subs to Restricted subs
- \* Where possible, classifying capital leases as operating leases

With respect to a waiver from the banks, we would need to decide quickly as it will take time to execute. It may be costly, and the story may get picked up by the financial press.

We need to decide what approach to take, and make sure all resources are made available to remedy the situation.

-----Original Message-----

From: Millner, Hank  
Sent: Tuesday, May 15, 2001 8:41 PM  
To: Perrone, Joseph P  
Cc: Cohrs, Dan  
Subject: FW: Debt covenants and capacity sales

Joe and Dan,

Attached is a copy of the latest financial covenant compliance forecast that Dan refers to below. While we are awaiting Restricted Group financials for year-end 2000 and first quarter 2001, Structured Finance has attempted to back into Restricted Group EBITDA numbers based on information contained in the Global Crossing and Asia Global Crossing earnings releases. As Dan mentions, our debt capacity is extremely tight. In addition to projecting minimal debt capacity going forward (\$200 million in Q3), I am particularly concerned that we are at risk of violating the leverage ratio when we deliver the 1Q01 financials in 15 days. Our forecast shows minimal clearance (4.71 ratio vs. 4.75 covenant) but is based on imprecise estimates. Violating a financial covenant is an immediate Event of Default under the Credit Agreement, with no cure period. I would like to have some in Joe's group review the assumptions in the attached file (the first three worksheet tabs are the

most relevant). There are certain modifications to the Restricted Group that we could investigate that might give us comfort the will comply with the ratio. Alternatively, we will need to seek a waiver from the banks. Please call to discuss.

Thanks,  
Hank

-----Original Message-----

From: Cohrs, Dan

Sent: Saturday, May 12, 2001 5:10 PM

To: Walsh, Dave; Casey, Tom

Cc: Dullabh, Susan; Gorton, Jim; Millner, Hank; Perrone, Joseph P

Subject: Debt covenantsa and capacity sales

Our current projection, given 2 billion of Adj. EBITDA for 2001, and assuming the guidance of AGC, is that we will be tight on our bank covenant as we go through this year. The binding covenant is the ratio of total debt to Adj EBITDA. The current test is 4.75, and that drops to 4.0 soon. The test applies to the Global Crossing restricted group (GXRG), which excludes AGC and Racal.

This means that we need to make our numbers in the GXRG.

The results for the first quarter seriously changed the outlook on this, because of the incremental cap ex in the GXRG, and the mix of Adj EBITDA between AGC and GXRG. We effectively used up around \$1B of debt capacity:

Adj EBITDA at AGC: \$239M

"Big Deal" EBITDA at AGC \$270M (Q and TSIX)

AGC EBITDA over plan \$200M (rough estimate for illustration: this is also GXRG EBITDA under plan)

x 4 (covenant) \$800M

Incremental Cap Ex GXRG \$385M

"missing" debt capacity for GXRG \$1185M

Net: As we plan our IRU deals this year, relying on sales on Asian systems has a big effect on our bank covenants.

OR 5/6

D DAVOS

 Register  
 TR  
 5 Lines  
 Look?

- be a sponsor?

↳ yes for India

- host an event in Davos - yes, Sun. night. Hollywood Crowd

2) Take bags to Golf outing

next week. - Goldman conference.

→ Shinnick golf outing - June 6th

3) Who does advance work for Tom? re meetings

when he travels to conferences.

→ Come back w/ a plan

↳ Rosalie, Shun, Tom, Lodi, John L., Gary.

\* India → in November

? 4) Future Global Conference in S.F. next year.

? What are the ten top conferences? - cost?

2) Strategy w/ Regene AGC

- Tom to solve 1X Net issue - 2 weeks

- discussion of who books orders GE? as a GNO?

Tom → Meet w/ SL Thursday morning.

GW - to go to Microsoft Conference on the 23<sup>rd</sup>
 make  
 presentation  
 to customer  
 \* Develop a program - hand personal note thanking  
 CEO for their business. -  
 (2 sentences) draft.

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 GX-HEC-40391

SW: Wants to see Marketing Presentation again.

### Highlights

- ① Forecast for 2Q - \$255M
- which is @ \$300M light
- what to do?
  - Worldcom trade? (Patrick J.)
  - Intermedia trade?
  - Tele/fee?
  - Enron?

Let  
out  
and  
Tom  
know. → \* Has ~~John~~ David W. called down  
on his personal loan?

→ replace D.W.?

→ who has full responsibility?

recent → Research report on LV3.  
→ Tom Middleton

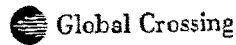
get for  
SW. → article WTS last Friday front page.  
✓ "Telecom debt"

Tom  
do memo → \* No interviews w/out Tom Jasey's approval.

02/2002 15:58 FAX

Debevoise &amp; Plimpton

009



DATE: May 22, 2001  
 To: Tom Casey  
 FROM: J.P. Clayton  
 SUBJECT: Recurring Revenue Trend

I have attached our North American May weekly recurring revenue trend.

If you recall, we were off in April by a little more than \$30 million. The trend continues in May.

The negative variances are significant in the following segments.

| <u>SALES CHANNEL</u> | <u>CURRENT MONTH VARIANCE</u> | <u>YTD VARIANCE</u> |
|----------------------|-------------------------------|---------------------|
| • Commercial Retail  | ( \$5.2)                      | ( \$5.0)            |
| • Financial Markets  | ( \$6.7)                      | (\$38.7)            |
| • Broadband Services | ( \$5.7)                      | (\$19.2)            |
| • Carrier            |                               |                     |
| - Data               | ( \$7.7)                      | + \$7.2             |
| - Voice              | (\$10.9)                      | (\$24.6)            |

In total, we are \$82.5 million behind budget in terms of recurring revenue on a year-to-date basis. The month of May shortfall is approaching \$34.6 million. We need to take corrective action to stimulate revenue and reverse this negative trend. I would suggest a sales review to discuss recurring revenue and IRU sales for the remainder of the year. We should address not only the forecasts but what corrective action that we are taking to mitigate the deficit.

If David cannot narrow the revenue shortfall then Carl must re-assess his operational support.

Joseph P. Clayton

c: J. Perrone

GX-HEC-43853

07/22/2002 15:58 FAX

Debevoise &amp; Plimpton

010

Global Crossing North America  
Commercial Vertical Channel Revenue Estimate  
May 2001

| Revenue 2001                 | 1st May<br>Trend | Budget<br>March | May<br>Variance<br>\$a Plan | May<br>Percent<br>Variance | Actual/<br>Trend<br>YTD | Budget<br>YTD | YTD<br>Variance<br>\$a Plan | YTD<br>Percent<br>Variance |
|------------------------------|------------------|-----------------|-----------------------------|----------------------------|-------------------------|---------------|-----------------------------|----------------------------|
|                              |                  |                 |                             |                            |                         |               |                             |                            |
| Revenue (in thousands)       |                  |                 |                             |                            |                         |               |                             |                            |
| AT&T/Verizon & Entertainment | 16,667           | 31,599          | (\$1,133)                   | -70.6%                     | \$2,532                 | 34,718        | (\$2,186)                   | -46.4%                     |
| AT&T/Verizon                 | 202              | 340             | (138)                       | -40.6%                     | 918                     | 1,368         | (450)                       | -31.9%                     |
| AT&T/Verizon                 | 17,413           | 19,212          | (1,800)                     | -9.4%                      | 86,141                  | 69,165        | (1,024)                     | -3.4%                      |
| Government                   | 97               | 1,324           | (1,227)                     | -92.7%                     | 414                     | 3,053         | (2,612)                     | -86.3%                     |
| Enterprise & Small Business  | 44,011           | 44,294          | (283)                       | -0.6%                      | 224,024                 | 220,262       | 3,762                       | 1.7%                       |
| Conference                   | 15,897           | 16,297          | (400)                       | -2.5%                      | 72,239                  | 72,469        | (230)                       | -0.3%                      |
|                              | 378,086          | 383,237         | (\$5,151)                   | -1.3%                      | 1,306,365               | 1,307,427     | (\$1,062)                   | -0.1%                      |

GX-HEC-43854

NA May Why Revenue Trend.xls



**CONFIDENTIAL**

**From:** Gorton, Jim  
**To:** Casey, Tom  
**CC:**  
**BCC:**  
**Subject:** Sales Comp{F}  
**Date:** 6/1/2001 12:48:38 PM  
**Attachments:**

---

Incentives, Tom. Not that you do not pay them, you just do not pay them as much, because one is more valuable to the Company than the other. I am focusing on our cash flow and our covenant defaults in our loan agreements. Whether or not those are legal issues, I do not know, but I do know that they are vitally important. Jim

-----Original Message-----

**From:** Casey, Tom  
**Sent:** Thursday, May 31, 2001 9:26 PM  
**To:** Gorton, Jim  
**Subject:** RE: Sales Comp

Let me make sure I understand your position here: if we don't get these deals, we miss our quarters; if we don't incentivize the sales force, they won't do these deals. Therefore, unless you have evidence that there are \$600m of non reciprocal deals out there this quarter (and, of course, increasing amounts in all future quarters) that our sales force is ignoring (out of spite?), we'll change the comp plan in a manner that is almost assured to cause us to lose more than 50% of our IRU business. Do I have that right? If so, please focus on legal issues henceforth. Thanks for sharing.

-----Original Message-----

**From:** Gorton, Jim  
**Sent:** Thursday, May 31, 2001 3:50 PM  
**To:** Casey, Tom; Cohrs, Dan; Walsh, David; Comparin, John; Perrone, Joseph P  
**Subject:** Sales Comp

Are we paying our sales people the same if they do a "reciprocal deal" (swap) as when they make a straight sale? Of course, we should not be--we have to find a way to incentivize sales people not to seek the easy way out. It is just too critical an issue to our cash flow. I also hope we can get a sales comp structure that is margin oriented as well. Jim

MM 4/4

TC, DW, CG, JAR, J Clanton, J Compain, J. G., J. Perrone  
 Michael Franklin, Mercer. - S Cook, Support.  
 Absent - D. Coors.

T.C. - Opening Comments. re: how to make "cut" decision.  
 - do you need the role? - is the person at risk?  
 John - reviewing of chart

Discussion of timing of cut. - Presumption  
 is cut is earlier  
 unless exception made  
 and agreed by TC.

John -  
 to 10%  
 of  
 { Discussion of SR. Frontier people cut & their  
 options exercise period.  
 - any liability?

Changes to List "Cut as of May 18th"

Mktg. → Marsha G. - stays

Mktg. → Hector Diaz - cut } not part of "50", but high sal.

Mktg. → ~~John~~ ~~John~~ ~~John~~ } part of 2000 cut.  
 Larry Grayson

(Jeff Howe stays - responsible for sales.)

→ Bill Achillea - stays, but reports to wulst,  
 in a sales role.

#84 OPS → cut Kenton Dewar

#85 OPS → cut Timothy Granger

#86 OPS → cut Brashko Victor

#87 OPS → cut Leedham, Jan.

#104 LH Giraldo Gutierrez - stays.

Hallock?  
 Low?  
 Schwartz? } where  
 these  
 people.

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 GX-HEC-4012

LA. Correia, Luis Carlos - cut, but replace position.

(7) Jim Dole?? - return to discuss

#121 ~~cut~~ Riley, Ek. - Carl to rethink this one w/ Colleen.

Dimitrieus, James - OK to stay.

replace cut O'Keefe, Colleen - cut, but replace & keep until  
find replacement.

cut Mulligan, Ed - cut

cut Shih, Bob - cut, but keep as a consultant for  
a few months.

? cut Chirido, Prozano - Carl to check this one again.

cut. Hinsenbug, Harrie -

stay. O'Neill, Charles

stay. Schneider, Thomas

#187 cut Wayt, John

- Second round by Thursday morning.
- Add'l people will be done by email.

### Sales Summary of 2nd Q

Rev Est. ~~44.4M~~ ~~44.4M~~ ~~44.4M~~  
 100M off budget @ 90M in North Am.  
 1.222 of Service Revenue Target  
 1.062  
 Tag ~~11.5M~~ <sup>11.5M</sup> - EBITDA  
 Bdg. 98/11  
 Forecast 115M.

### Next Mon.

- mm in New York plus Conf. call # for Clayton?  
 L. Cook?

John C. 310-729-1476

with Joe P.

Gross 42  
Net 39

- 1  
- 1

Replace - LA legal  
Replace - SUP comm.  
Replace - SR CIOVP

Marsh G. (keep)

Bill A. (keep but in a diff. role) ?

Sub 37

+ 4

Dewar  
Granger  
Brashko  
Leerdam } cut

Sub 41

- 1

Gutierrez (keep but in a diff. role.)

(-1+1)

Wash Correia cut, but replace

Sub 40

(+1 -1) Colleen (cut, but will be replaced)

+1

Ed Mulligan

Sub 41

+1

Hannah Fliszenberg

-1

Thomas Schroeder

41

-1

Robert Woz, keep for now, ~~cut~~ <sup>Cost of access</sup>

40

-1

(Double count on Brashko)

39

~~John C. 310-729-1476~~

+1

(As between Riley + Gutierrez one will go)

+1

Walt, John #187

Sub 41

maybe cut?

~~James~~  
~~Stuart~~  
- Rosario Chirco #1  
- Mulligan #141  
~~Stuart~~  
- Low, Stuart #1  
- Schmitt #12

maybe keep

- Jim Dolan #1  
- Ed Riley #1

## Global Crossing

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## DAILY PLANET

|      |         |        |                       |
|------|---------|--------|-----------------------|
| GX   | \$12.80 | ↑ 0.55 | 2:38 PM EST on May 31 |
| ACCY | \$0.11  | ↑ 0.10 | 3:04 PM EST on May 31 |

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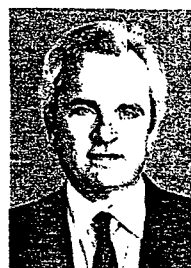
## On the Record

"I believe that we now need to make some changes to our organization in order to realize our strategic intent."

- Tom Casey

### Message from Tom Casey: Management Restructuring

Global Crossing is nearing the completion of a network that is unmatched in the communications industry. Our continued competitive advantage and rapid growth have been realized by our ability to sell our services using one network that provides capacity to the major locations in the world. We owe this success to the talent and determination of our employees to realize our vision. Thank you all for making individual and collective contributions.



CEO - Tom Casey

Having established ourselves as a leader in the global communications industry based on the strength of our network, we are now taking the next step in maintaining our competitive advantage by developing the ability to quickly and consistently deliver quality services and solutions to our global customers. Doing so successfully will require that we continually adapt our organization.

Our current management structure is a reflection of our growth. Over the past few years, we have acquired a number of companies, which have brought us talented people and a diverse set of business processes, systems and cultures. They have also brought us market presence in a number of geographic areas. In order to allow us to develop that market presence and minimize disruption within the acquired companies, we established a regionally based organization structure. While that structure has served us well through this period of growth, I believe that we now need to make some changes to our organization in order to realize our strategic intent. Specifically, we need an organization that:

- Enables us to deliver on our global value proposition;
- Ensures successful performance in local markets;
- Allows us to operate the business efficiently and effectively;
- Fosters operational excellence within our functions;
- Eliminates duplication, enabling speed and focus;
- Ensures effective coordination of revenue and expense generation;

[http://home.gcintranet.net/dpnews/053101\\_memox.html](http://home.gcintranet.net/dpnews/053101_memox.html)

5/31/01

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GX-HEC-4012

and

- Is aligned around our current and future customers and processes.

With those objectives in mind, we have decided to immediately move to a functional global organization where all departments in the regions report to each of their respective global functional leaders. In this new organization, members of the senior management team will have new roles and accountabilities to provide leadership and direction to their respective functional areas on a unified global basis. Over the next several weeks, additional changes in reporting relationships and roles will be made to align the next levels of the organization to the new structure.

These changes will help position our company to compete in this ever-changing communications industry and to establish accountabilities that allow us to measure our success. Following are the changes in the senior team.

- David Walsh will continue as President and COO. David will be responsible for producing the revenue side of our business by leading the global sales force and developing the marketing strategies for our products and services.
- Carl Grivner has accepted the role as Executive Vice President Global Operations. In this role, he will direct the functions that plan, develop and manage our network, and design and provide the systems we need to sell the products and services to our customers and give customers the care and attention they expect.
- Joe Clayton will be nominated to become Vice Chairman of Global Crossing at the next meeting of the Board of Directors and will continue reporting to me. He will oversee the transition to the new global organizational structure and assist me in key initiatives that will enable us to execute our global strategy. In addition, Joe will continue to manage Global Crossing's interest in the ILEC until its sale to Citizens is closed.
- Jose Antonio Rios has accepted the role as President of Global Crossing International. Reporting to me, he will take a broader leadership role in our international business, including Europe. He will also work with David, Carl and all our corporate functions internationally. He will be held accountable for developing and maintaining our relationships with major international customers, as well as managing our relationships with the various national governments in Europe, Latin America and the Caribbean. The country managers will report to him.
- The legal, accounting and finance and human resources functions around the world will report to the appropriate functional executive vice president.
  - o Dan Cohrs, Executive Vice President & CFO
  - o Jim Gorton, Executive Vice President Legal & General Counsel
  - o Joe Perrone, Executive Vice President Finance & Business

## Performance

- o John Comparin, Executive Vice President Human Resources

Decisions about the next level of organization structure have not been finalized. Executives will be working over the next several weeks to design the various functional organizations. Each of these leaders will be preparing their announcements of their organization structures in the next few weeks. Organizational charts for the new top-level organization are located at <http://bhweb2.gcintranet.net/er/powerpoint/reporting0530.ppt>. I look forward to your efforts and participation in a smooth transition. The success of our new organization design will assure the continued growth for Global Crossing.

Tom Casey  
Chief Executive Officer

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The information displayed is delayed at least 15 minutes.



MINUTES of the Meeting of the Board of Directors of Global Crossing Ltd., held in New York, New York on the 13<sup>th</sup> day of June, 2001 at 1:00 p.m. local time.

Present:

|         |                        |                        |
|---------|------------------------|------------------------|
| Messrs. | Gary Winnick, Chairman | William S. Cohen       |
|         | Mark Attanasio         | Lodwick M. Cook        |
|         | Norman Brownstein      | Eric Hippeau           |
|         | Thomas J. Casey        | Geoffrey J.W. Kent     |
|         | Joseph P. Clayton      | Maria Elena Lagomasino |

Absent: William E. Conway, Jr.

In attendance:

|         |                    |
|---------|--------------------|
| Messrs. | Dan J. Cohrs       |
|         | James C. Gorton    |
|         | Steven J. Green    |
|         | Mitchell C. Sussis |

Mr. Winnick called the meeting to order and explained that Mr. Green, a Director of Asia Global Crossing Ltd., would attend the meeting as a guest. Mr. Winnick conveyed his thoughts on the state of the Company, including the recent deterioration in industry conditions and management's preliminary plans for addressing the situation. Discussion ensued.

Mr. Cook, Chairman of the Nominating Committee, reported on this morning's meeting of the Nominating Committee. Mr. Cook stated that the Committee discussed the qualifications of Mr. Green as a Director and recommended that the Board consider Mr. Green's candidacy at the August Board meeting. Mr. Cook explained that the Committee also recommended that Mr. Clayton be appointed Vice Chairman of the Board of the Company to reflect his new responsibilities in helping oversee the transition to a new global organizational structure aligned along functional, rather than regional, lines.

Minutes of the meeting of the Board of Directors held on April 11, 2001 were approved.

Carl Grivner, Executive Vice President – Global Operations; S. Wallace Dawson, Senior Vice President – Global Networks; and Brian Fink, Senior Vice President – Systems and Product Development, were invited into the meeting. Mr. Grivner left the meeting after expressing enthusiasm regarding his new responsibilities for global operations.

Messrs. Dawson and Fink provided an overview of the strategy and progress of the Company's network service architecture. In their presentation, Messrs. Fink and Dawson (1) described the industry's evolution from the provision of basic connectivity to managed services, (2) explained that the Global Crossing Network can be differentiated from the networks

of incumbent carriers in that the Global Crossing Network is integrated to a greater degree and is therefore capable of being managed more closely and easily and (3) described the Company's service offerings and related marketing and provisioning strategies. Discussion ensued, after which Messrs. Dawson and Fink left the meeting.

Mr. Cohrs described management's proposal to authorize a backstop loan facility in the amount of up to \$400 million. Mr. Cohrs explained that the proposed lender is Asia Global Crossing Ltd. and that the facility would be put in place only if there were to occur an unforeseen delay in the closing of the sale of the incumbent local exchange carrier business and only after a fairness opinion were obtained. Discussion ensued, after which, upon motion duly made, seconded and unanimously carried by those members of the Board present, it was:

#### Loan Facility

RESOLVED, that the Company be, and it hereby is, authorized, indirectly through its subsidiary, Global Crossing Holdings Ltd. ("GCHL"), to execute, deliver and perform an agreement pursuant to which Asia Global Crossing Ltd. will make available to GCHL a loan facility in the aggregate principal amount of \$400 million on substantially the terms set forth in the materials presented at this meeting and to be attached to the minutes hereof; and

FURTHER RESOLVED, that Company be, and it hereby is, authorized, indirectly through GCHL, to borrow under such loan facility such amount as the officers of the Company or GCHL deem appropriate in their sole discretion.

Mr. Cohrs explained that dividend payments were due on various issues of the Company's preferred stock. Upon motion duly made, seconded and unanimously carried by those present, it was:

#### Approval of Dividends

RESOLVED that a dividend be, and hereby is, declared on the Company's 7% Cumulative Convertible Preferred Stock for the period from May 1, 2001 through to August 1, 2001, in an amount equal to US\$4.375 per share (US\$11,375,000 in the aggregate), and that such dividend be payable on August 1, 2001 to the shareholders of record as of the close of business on July 16, 2001;

FURTHER RESOLVED that a dividend be, and hereby is, declared on the Company's 6 <sup>3</sup>/<sub>4</sub>% Cumulative Convertible Preferred Stock for the period from May 1, 2001 through to August 1, 2001, in an amount equal to US\$1.59375 per share (US\$8,670,048 in the aggregate), and that such dividend be payable on August 1, 2001 to the shareholders of record as of the close of business on July 16, 2001;

FURTHER RESOLVED that a dividend be, and hereby is, declared on the Company's 6 <sup>3</sup>/<sub>4</sub>% Cumulative Convertible Preferred Stock, Series B, for the period from May 1, 2001 through to August 1, 2001, in an amount equal to US\$15.9375 per share (US\$6,375,000 in the aggregate), and that such dividend be payable on August 1, 2001 to the shareholders of record as of the close of business on July 16, 2001; and

FURTHER RESOLVED that a dividend be, and hereby is, declared on the Company's 6 <sup>3</sup>/<sub>4</sub>% Cumulative Convertible Preferred Stock for the period from April 15, 2001 through to July 15, 2001, in an amount equal to US\$4.21875 per share (US\$19,406,250 in the aggregate), and that such dividend be payable on July 16, 2001 to the shareholders of record as of the close of business on July 2, 2001.

Referring to the materials previously provided to the Directors, Mr. Casey gave a presentation on the proposal to sell to Asia Global Crossing the Asian business of IXnet and IPC and the territorial rights to Australia and New Zealand. In his presentation, Mr. Casey described the proposed transactions and explained their strategic rationale. Mr. Casey also explained that JP Morgan Securities Inc. has indicated that it is prepared to deliver a fairness opinion in substantially the form presented at the meeting. Upon motion duly made, seconded and unanimously carried by those members of the Board present, it was:

**Stock Purchase Agreement and Related Agreements**

RESOLVED, that the Board of Directors deems it fair to and advisable and in the best interests of the Company and its shareholders that the Company (1) enter into an agreement (the "Sale Agreement") with Asia Global Crossing Ltd. ("AGC") and certain of its subsidiaries pursuant to which the Company will sell to AGC the Asian operations of IXnet, Inc. ("IXnet") and IPC Information Systems, Inc. ("IPC"), both Delaware corporations and indirect wholly-owned subsidiaries of the Company ("IXnet/IPC Asia"), either directly or through the purchase of shares of, or the merger with, certain subsidiaries of IXnet and IPC and (2) enter into an amendment (the "Amendment") to the Subscription and Shareholders Agreement, dated as of October 12, 2000, among the Company, Softbank Corp., Microsoft Corporation and AGC, pursuant to which AGC will acquire rights to conduct its business in the countries of Australia and New Zealand (such rights, the "Territorial Rights");

FURTHER RESOLVED, that the Board of Directors of the Company (i) deems the Sale Agreement, the Amendment, the transactions contemplated by the Sale Agreement and the Amendment to be fair to and in the best interests of the Company and its shareholders and (ii) hereby approves of such agreement, amendment and transactions;

FURTHER RESOLVED, that any officer of the Company be, and each of them hereby is, authorized to execute and deliver on behalf of the Company the Sale Agreement, the Amendment and any related agreements (collectively, the "Agreements") with such charges therein and additions or amendments thereto, to the extent permitted by law, and any and all ancillary agreements, instruments and other documents, in such form as such officer shall approve, the execution thereof to be conclusive evidence of such approval;

FURTHER RESOLVED, that the Agreements and the other transactions contemplated thereby be, and they hereby are, adopted, approved and ratified; and

**Governmental and Regulatory Approvals and Filings**

FURTHER RESOLVED, that the officers of and counsel for the Company be, and each of them hereby is, authorized and directed, in the name and on behalf of the Company, to prepare and file all such applications and any and all certificates, documents, letters and

other instruments with all appropriate federal, state, foreign or other governmental authority necessary or desirable for approval of the transactions contemplated by the Agreements, with full power and authority by such officers and counsel to take any and all such action as may be necessary or advisable in their judgment to obtain such approvals.

Mr. Kent, Chairman of the Compensation Committee, reported on this morning's meeting of the Compensation Committee. Mr. Kent explained that the Committee discussed management's plans to terminate approximately 2,000 employees in connection with the transition to a new global organizational structure aligned along functional, rather than regional, lines. Mr. Kent stated that the Committee approved stock option grants for newly hired and promoted employees and also approved a five year post-termination exercise period for vested stock options held by employees meeting certain eligibility criteria based on age plus years of service. Discussion ensued.

Referring to the materials previously provided to the Directors, Mr. Gorton described the proposal regarding the annual election of officers of the Company. Upon motion duly made, seconded and unanimously carried by those members of the Board present, it was:

#### Election of Officers

RESOLVED, that each of the individuals named on the list of officers of the Company presented at this meeting and to be attached to the minutes hereof be, and hereby is, appointed to the office of the Company set forth opposite his or her name on such list, each such officer to serve at the pleasure of the Board until his or her successor is appointed and qualified or, if sooner, until he or she ceases to be an employee of the Company;

FURTHER RESOLVED, that the Compensation Committee of the Board of Directors be, and it hereby is, authorized and empowered from time to time to appoint such additional officers of the Company as such Committee shall deem appropriate in its sole discretion; provided that the Board reserves the sole and exclusive authority to appoint the Chairman, Co-Chairman and Chief Executive Officer;

FURTHER RESOLVED, that the Chairman, Co-Chairman and Chief Executive Officer be, and each hereby is, authorized and empowered from time to time to appoint such Vice Presidents (excluding Senior Vice Presidents and Executive Vice Presidents), Assistant Vice Presidents, Assistant Treasurers and Assistant Secretaries of the Company as such officer shall deem appropriate in his or her sole discretion;

#### Delegation of Powers to Officers

FURTHER RESOLVED, that the Board of Directors hereby delegates its powers, authorities and discretions to the officers of the Company to exercise the power of the Board to undertake such matters relating to the Company's business as such officers shall deem in their sole discretion to be in the ordinary course of business of the Company ("Ordinary Course Matters"), provided that the officers shall have no authority to take any action specifically reserved to the Board by written resolution or by applicable law;

RESOLVED FURTHER that in furtherance and not in limitation of the foregoing, each officer of the Company may:

- (i) take and authorise the taking of any actions (including the negotiation, agreement, settlement, approval and execution of all documents and the making of payments) which he or she may consider necessary or desirable or otherwise deem appropriate for the purposes of, or in connection with, or incidental to Ordinary Course Matters;
- (ii) open, maintain and operate from time to time one or more bank accounts in any jurisdiction, with any bank and in any currency as required in connection with Ordinary Course Matters;
- (iii) undertake all other further actions, documents, agreements, resolutions, authorities, letters, payments, undertakings, approvals or notices which are, in the opinion of such officer, necessary, desirable or appropriate under or in connection with Ordinary Course Matters; and
- (iv) take all actions and execute under hand or under the Seal of the Company all documents from time to time which he or she may consider necessary or desirable to enable the Company to comply with all applicable laws (whether in Bermuda or elsewhere) and the Company's constitutional documents; and

#### **Executive Officers under Section 16**

FURTHER RESOLVED that each officer of the Company designated as a "Section 16" officer on the list presented at this meeting and to be attached to the minutes hereof shall be treated as an "executive officer" of the Company for purposes of Section 16 of the Securities Exchange Act of 1934.

Referring to the materials previously provided to the Directors, Mr. Sussis described the proposal regarding the appointment of EquiServe Trust Company, N.A. as successor to Fleet National Bank as the Company's transfer agent and registrar. Mr. Sussis explained that both transfer agents are affiliated with EquiServe Limited Partnership and that the change is technical in nature. Upon motion duly made, seconded and unanimously carried by those members of the Board present, the following resolutions were adopted:

#### **Transfer Agent**

WHEREAS, the Company's current transfer agent and registrar is Fleet National Bank, a partner in EquiServe Limited Partnership ("EquiServe L.P."); and

WHEREAS, EquiServe L.P. has requested that the Company name EquiServe Trust Company, N.A., a wholly owned subsidiary of EquiServe L.P., as successor transfer agent and registrar;

RESOLVED that the resolutions prepared by EquiServe L.P. attached hereto and incorporated herein by reference be, and they hereby are, approved and adopted; and

FURTHER RESOLVED that any signatures on any stock certificates representing common stock in the Company need not be autographic but may be affixed to such certificates by mechanical means or may be printed thereon and that a representation of the Seal may be printed on any such certificates in lieu of the actual Seal.

Mr. Sussis left the meeting, after which a lengthy discussion ensued regarding the continuing softness in the telecommunications market and its impact on the Company's second quarter and projected full year financial performance. Referring to the financial materials presented at the meeting and which had not previously been provided to the Directors, Mr. Casey explained that, although the Company managed to meet its financial targets for the first quarter of 2001 despite a slowdown in demand, deteriorating industry conditions and rising targets are making it increasingly difficult to meet financial expectations.

Mr. Casey explained that the Company had no reason to change its financial guidance at the May 10, 2001 analysts' and investors' conference, but that approximately two weeks after that date Mr. Perrone began a detailed investigation of the implications on the Company's financial forecast of a protracted downturn in the telecommunications industry. Mr. Perrone stated that the results of his analysis crystallized by June 1<sup>st</sup>, at which point he reported the results to Mr. Casey.

Mr. Gorton stated that he closed the window for trading by corporate insiders in Global Crossing securities shortly after the management meeting held on Tuesday, June 4<sup>th</sup>, when Mr. Casey indicated that the Company would likely have to reduce its financial projections. Mr. Gorton explained that, although he had previously been aware of concerns with the Company's second quarter operating results, in the Company's history it was quite common for such concerns to be expressed during a given quarter only to be resolved through quarter-end sales activity.

Discussion ensued concerning the Company's plans for addressing continued softness in industry conditions. The Board approved the creation of an ad hoc committee to investigate the need for additional capital and possible avenues of financing. It was agreed that Mr. Attanasio would chair the ad hoc committee and that other Directors interested in serving on the committee would contact Mr. Attanasio.

For each resolution adopted by the Board at this meeting, upon motion duly made, seconded and unanimously carried by those members of the Board present, it was:

#### General

FURTHER RESOLVED that each of the directors and officers, which shall include any Assistant Secretary, of the Company be and is hereby authorized in the name and on behalf of the Company:

- (a) to execute and deliver any documents, instruments, certificates or agreements hereby contemplated (and, if required, under the Seal of the Company, and to attest to the use of the Seal, where so required), in such form as the person executing the same may approve, such approval to be conclusively evidenced by such execution;

- (b) to negotiate, approve, execute and deliver any and all other documents, instruments and agreements, and to do all other things necessary or advisable in order to effectuate the terms of any transactions hereby contemplated;
- (c) to take or cause to be taken any and all actions and to execute and deliver or cause to be executed and delivered all such instruments and documents as may be necessary or advisable in order to effectuate fully the terms and conditions of any documents, instruments, or agreements hereby contemplated and to carry out and perform the purposes of the foregoing resolutions; and
- (d) to delegate any and all of the powers and discretions vested in them by virtue of the foregoing resolutions by way of power or powers of attorney under the Seal of the Company, and to attest to the use of the Seal, to such individuals (whether directors or officers of the Company or not) and upon such terms as the individual or individuals acting may in his or their absolute discretion determine, the exercise of such discretion to be conclusively evidenced by their execution thereof; and

**Ratification**

FURTHER RESOLVED, that all actions previously taken by any officer, director, employee or agent of the Company in connection with any of the transactions contemplated by the foregoing resolutions are hereby adopted, ratified, confirmed and approved in all respects as acts and deeds by and in the name of the Company.

There being no further business to come before this meeting, upon motion duly made, seconded and unanimously carried by those members of the Board present, it was RESOLVED to adjourn.

\_\_\_\_\_  
Gary Winnick  
Chairman

\_\_\_\_\_  
Mitchell Sussis  
Secretary

06/05/00 17:08 FAX 408 541 9160

EXECUTIVE FAI

002

**MEMORANDUM****CONFIDENTIAL****TO:** Gary Winnick  
Tom Casey  
Lod Cook**FROM:** Leo Hindery**DATE:** June 5, 2000

---

In our particular niche of the telecom industry there are four notable participants (GBLX, Level3, Qwest and 360 Networks) and one construction-driven pretender (Tycom). The homogenous way in which the four of us describe ourselves and have chosen to position ourselves is striking – even more striking is the fact that in the past six months each of the four companies has signaled to one or all of the others and to the global telecom industry in general its willingness to have its ownership changed – read “acquired”. Never has any industry group been formed more quickly nor signaled more quickly its willingness to be absorbed.

For the past three months I have thought long and often about this phenomenon, and I have wrested with whether the transiency of the four companies’ strategies is born out of the uncertainty which is often associated with a short industry and/or corporate history, or whether it is a candid look at the realities of the broadband transport world, especially the impending new transport-related technologies, most notably including the Ethernet-based technologies. I am now convinced it is the latter, and thus like the resplendently colored salmon going up river to spawn, at the end of our journey our niche too is going to die rather than live and prosper.

The stock market can be fooled, but not forever, and it is fundamentally insightful and always unforgiving of being misled. Whether it is in connection with the 4-5 major “alt-transport” companies, the cable companies, the RBOCs, the DSL access companies or any other company playing in the overall access and transport spaces, the stock market is every day realizing more the perilousness of the access/transport strategy over the long term, despite very profitable outcomes in the near term as data services explode and “new builds” lead to disintermediation from incumbents.

CONFIDENTIAL TREATMENT REQUESTED BY  
KRAMER LEVIN NAFTALIS & FRANKEL LLP  
FOR GARY WINNICK

GW01001



What this means for Global Crossing, I believe, is that we must, in order:

1. dispose or begin to dispose of the ILEC and of marine construction in whatever ways most monetize their value;
2. quickly complete GlobalCenter's going public event, since this company is valued so very differently than GBLX;
3. talk publicly every day about how better run Crossing is, and then meet or exceed near-term financial expectations (e.g., \$430mm of Adjusted EBITDA in the second quarter); and
4. without looking like we are shaking our bootie all over the world, sell ourselves quickly to whichever of the six possible acquirors offer our shareholders the highest value.
  - that value, in my opinion, is around \$45 to \$50 per outstanding share, not including the imbedded value of GlobalCenter but assuming the assets of AGC and the actual or pending monetization of the ILEC and marine.
  - the six possible acquirors of GBLX include the Germans, the Italians, Concert, Bell Atlantic, Bell South, and MCI Worldcom (and I do not recommend nor would I comfortably support a combination of any sort with any of the four other companies operating in our niche, which action would not be sufficiently remedial).

I look forward to your thoughts on these views and on my recommendations, and I hope that in a very short time we can reach consensus regarding them. In my opinion, it is imperative that GBLX be the first among the "group of five" to go, so to speak, and I hope that we will work commonly to that end. Finally, I hope we will conclude that if we handle the process loosely or as a simple extension of past outreaches, we will probably not be successful in our endeavor.

LJH/lp



CONFIDENTIAL TREATMENT REQUESTED BY  
KRAMER LEVIN NAFTALIS & FRANKEL LLP  
FOR GARY WINNICK

GW01002

## CONFIDENTIAL

**From:** Millner, Hank  
**To:** Help Desk, BH  
**CC:**  
**BCC:**  
**Subject:** Cashflow files{F}  
**Date:** 1/8/2001 5:24:10 PM

---

**Attachments:**

[alert.txt](#)  
[alert.txt](#)

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Do you know how to open these attachments? They are supposed to be Excel files but have been replaced by .txt messages.

Thanks,  
Hank Millner x5203

-----Original Message-----

**From:** Oliver, Jamie K.  
**Sent:** Monday, January 08, 2001 3:36 PM  
**To:** Dullabh, Susan  
**Cc:** Tobias, Glenn; Perrone, Joseph P; Rossi, Kirk; Gutierrez, Matthew; Dorang, Edward F.; DiLullo, Richard M.; Millner, Hank  
**Subject:** FW: Cashflow files

Susan,

As discussed, attached are two files that help give a range of additional funding that may be required.

The first file assumes we meet our budgeted \$2.25B Adjusted EBITDA target by achieving \$450M in Q1 and 15% consecutive growth thereafter. The file also delays some capex projects as previously sent to you from Matt Gutierrez. The file shows we may not need additional funding if the ILEC deal occurs in the third quarter.

The second file assumes we fall short of our budgeted \$2.25B Adjusted EBITDA target but meet wall Street estimates of \$2.0 -2.1B. The file assumes we have a slowdown in Q1 but accelerate growth in later quarters. The file also assumes our capex requirements are accelerated relative to the first file. This file shows we may be fully funded for the year but need up to \$500M in additional funding during the year.

I spoke with Joe P and I understand he has discussed this with Dan C. Both have already concluded this range of additional funding may be required.

Please call me or Ed Dorang if you'd like to discuss in greater detail or prepare additional "what-if" scenarios.

206002656: Cashflow files{F}

Page 2 of 2

Thanks,

JO

-----Original Message-----

From: Dorang, Edward F.  
Sent: Monday, January 08, 2001 5:48 PM  
To: Oliver, Jamie K.  
Subject: Cashflow files

Jamie, here are the 2 files.  
<<alert.txt>> <<alert.txt>>

Ed Dorang  
Office: 973.410.8526  
Cell: 973.906.0806  
e-mail: [efdorang@globalcrossing.com](mailto:efdorang@globalcrossing.com)

**CONFIDENTIAL**

**From:** Wright, Robin  
**To:** Joggerst, Patrick  
**CC:**  
**BCC:**  
**Subject:** Capex  
**Date:** 3/9/2001 11:28:41 AM

---

**Attachments:**

---

Patrick,

Had a Qwest call this afternoon, on it were Jim Dole and Dave Carey. I'm afraid we are not going to get a great deal of enthusiastic support from the network folks without a directive from David. I think he needs to send a message to Wally or perhaps have a joint message from Wally and David that goes like this:

"We are now 3 weeks away from the end of the quarter and it is clear that expediting some capital expenditures is going to be key to meeting the Street's expectations. We are fully aware that we are asking you to do something completely opposite from the direction you are headed, in terms of keeping capex within the budget and being extremely careful about spending. Wally and I, along with the executive committee, will make decisions about the trade off of revenue versus capex. In the meantime, it is our belief that the best approach is to assume we will be making the expenditures as outline by the sales team. We commit to letting you know as quickly as possible the final decisions to minimize unnecessary work. We appreciate your support of our efforts."

Robin Wright  
Senior VP, Global Sales and Support  
Global Crossing  
88 Pine Street 30th Floor  
NY, NY 10005  
Office: 212-658-8168  
Fax: 212-658-8093  
Mobile: 917-270-5364  
rwright@globalcrossing.com

**CONFIDENTIAL**

**From:** Timothy J Malin  
**To:** jcohen@globalcrossing.com  
**CC:** jgorton@globalcrossing.com; hseymour@globalcrossing.com  
**BCC:**  
**Subject:** PRIVILEGED & CONFIDENTIAL: 360 Networks  
**Date:** 3/23/2001 6:35:34 PM  
**Attachments:**  
Jeff Cohen memo.doc

---

Jeff, here is the issue list you requested.

----- Forwarded by Timothy J Malin/Attorney/STBLAW on  
03/23/2001 06:32 PM -----

Mark J Thompson  
03/23/2001 04:06 PM

Sent by: Daisy Lebron

To: Timothy J Malin/Attorney/STBLAW@STBLAW  
cc:  
Subject: Jeff Cohen memo  
  
(See attached file: Jeff Cohen memo.doc)

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SIMPSON THACHER &amp; BARTLETT

1

simpson thacher &amp; bartlett

**PRIVILEGED & CONFIDENTIAL**  
**ATTORNEY WORK PRODUCT**

March 23, 2001

**To:** Jeff Cohen, Esq.  
**From:** Timothy J. Malin  
**Re:** 360 Networks

Following is a preliminary checklist of problems Global Crossing ("GC") could encounter if 360 Networks ("360") experienced severe financial difficulties. These issues arise regardless of whether GC purchases wavelengths or a fiber pair or some combination thereof.

Jurisdictions. The 360 Networks cable system is located in four (4) different countries. There is no assurance as to which laws will apply to insolvency proceedings, creditors' rights, etc.

Obtaining Property Rights.

See Item 1 above as to different jurisdictions and laws. In addition we have to consider the effect of different sub-jurisdictions – several states and provinces.

We don't know what property rights 360 has in its terrestrial system (fibers, conduits, regeneration huts, cable stations), and to what extent 360 can legally grant rights therein.

What rights does GC need to have in the conduits and regeneration huts of numerous third party owners in order to protect its interest in the fiber?

A bankruptcy court (in whatever jurisdiction) may deny GC ownership rights.

360's lenders may have a mortgage on all its property, superior to any right of GC.

Tyco and terrestrial contractors, if unpaid, may claim "mechanics" liens superior

to GC's rights.

There may be other liens on the System, e.g. taxes.

Even if GC obtains releases and recognition of its rights in certain property, creditors may disrupt service if they foreclose liens and other property, e.g., it may make sense for the creditors or court to save O&M costs by shutting down the System.

Third party providers may disrupt service if not paid, e.g., grantors of terrestrial rights of use, utility providers, etc.

Other parties may claim that the sale was a fraudulent conveyance.

The O&M provider may suspend service if unpaid.

360 may not perform its obligation to upgrade the System.

GC has no direct rights *vis a vis* TyCom or other suppliers.

All obligations of 360 arising after a bankruptcy filing may be considered "executory" and may be unenforceable against 360 in bankruptcy.

360 may decide to assume the contract with GC for which it has paid consideration but reject the contract for which it has been paid.

360 may liquidate or be sold to a rival of GC.

TJM

**CONFIDENTIAL**

**From:** Madeiros, Carlos  
**To:** Joggerst, Patrick; Dullabh, Susan; Cohrs, Dan; Wright, Robin; Tingley, Jon B.; Dawson, S. Wallace; Walsh, David; Gorton, Jim; Fitzpatrick, Brian  
**CC:**  
**BCC:**  
**Subject:** 360 discussion -- notes for STB drafting{F}  
**Date:** 3/27/2001 4:34:06 AM  
**Attachments:**

---

Patrick,  
 Some feedback from Rich on the main deal points:  
 1. Backhaul - must be two diverse routes at each end (US & UK)  
 2. Full Capacity/Upgrades - Once upgraded is this IRU or lit fiber?  
 3. Payment terms - \$40M could be approx 1/2 of upgrade price. So if they don't pass our \$40M to the supplier, and then go bust, the remaining \$40M won't pay TyCom.  
 4. Conditions - Securing leases should include all infrastructure rights (RTU).

Carlos

-----Original Message-----

**From:** Joggerst, Patrick  
**Sent:** Monday, March 26, 2001 10:46 PM  
**To:** Dullabh, Susan; Cohrs, Dan; Wright, Robin; Tingley, Jon B.; Dawson, S. Wallace; Madeiros, Carlos; Walsh, David; Gorton, Jim; Fitzpatrick, Brian  
**Subject:** FW: 360 discussion -- notes for STB drafting  
**Importance:** High

Several issues with the 360Networks deal:

Dan, Susan:  
 As you will see below, it was recommended by the bankruptcy experts here at STB, as well as Jim Gorton that we pay MORE to 360 to secure the entire upgraded capacity that we are purchasing from them -- we will draft the agreement that will ensure that the "upgrade provider" (either Tycom or ASN) get paid directly from us -- this gives us a position in a possible bankruptcy position that the asset at it full capacity belongs to GC. This will change the expected payment from \$175M to \$235M this quarter.

Wally/Carlos:  
 As you heard late Friday, 360 is in talks with suppliers other than Tycom to upgrade the system. Jim had wanted us to try to get them to agree to be a part of the agreement. Wally, I know that you feel that this will not be realistic to get from ASN within one week.

Jim/Jeff,



Given the above, we may need to find another mechanism to ensure that the "upgrade suppliers" get our money (while giving revenue recognition to 360).

We are reviewing draft docs today at STB and expect to be turning pages with the customer starting tomorrow. When I spoke with Jim Brennan over the weekend, he said that his primary focus for the week!

More later...  
Patrick

-----Original Message-----

From: Joggerst, Patrick

Sent: Saturday, March 24, 2001 10:48 AM

To: Cohen, Jeff; Seymour, Howard

Cc: Walsh, David; Wright, Robin; Fitzpatrick, Brian; Sgroi, Tony; Thieme, Doug; Gorton, Jim;

Morris, Charles

Subject: FW: 360 discussion -- notes for STB drafting

Importance: High

Jeff/Howard,

Here are the main deal points on the 360 deal for John Wry and Tim Malin reading/ drafting pleasure -- please comment/fix:

#### Subsea:

They will sell us a 1 fiber on the northern leg of their subsea system (Halifax to Liverpool) equipped with 8 10Gb/s wavelengths. They will sell us a fiber on the southern leg of their subsea system (express fiber from Liverpool back to Halifax) -- this pair is equipped with 4 10Gb/s waves -- they will give us an IRU for the other 4 waves on the local pair of their southern subsea system (Liverpool-Dublin-Halifax) to match the 8 waves in the north.

#### Backhaul:

We will get an IRU for 8 10Gb/s waves from Halifax to NYC and from Liverpool to London; making these city to city waves. (what do you think re: IRU term? -- 15 yr with option to renew 5+5 or just 20 years with one option to renew -- the OA&M is all pre-pd, so we may as well go for the longer term).

We will also get a dark fiber pair on the backhaul routes as security -- we may consider giving them the right to use IF at they find that they are using all of the other fiber pairs that they have (we said this was a possibility only and subject to further review by our bankruptcy legal advisors).

#### Full Capacity/Upgrades:

360 will immediately order an upgrade from an upgrade provider which, when complete, will give us the 48 10Gb/s waves on the two pairs that we will own (note: the 4 waves on the southern/local leg will be returned to 360). The full capacity will be delivered via multiple upgrades 15 months after they place the order. After this 15 months when we have all of our subsea capacity projected for those fibers (1/4th of the system). The backhaul routes will also be upgraded to full capacity no later than 15 months (they actually stated that they could get this done within 9-10 months).

#### Payment terms and conditions:

\$235M this quarter, with the remaining \$ 40M by December 31, 2001. Our trade off -- we are paying

more earlier, but we are requiring that our payments (made to 360 for their revenue recognition), but the payments for the full capacity upgrades will be sent directly to the upgrade provider to ensure that not only do we get the physical asset on the subsea system, we ensure that we get the full capacity that we are contracting for -- the fear being that if they went bankrupt, we could not compel the upgrade provider to perform).

In addition, other terms that we will require include securing leases (not colo) in their cable stations (to survive potential bankruptcy). They also agreed that we will get a letter of "quiet enjoyment" from their bankers in the event they go bankrupt -- all of this is in addition to the agreement with the "upgrade provider." Marty Klapper will be helping with these docs (yes?)

NOTES:

\* On our sale to them I will contact Jim Brennan to reflect Tom's conversation with Greg -- it is Tom's understanding that they will pay \$200M this qtr -- \$100M for PC-1; \$50M for EAC, and \$50M for dark fiber in Europe or Europe metro. They further agreed that they did not have to have a equal or great spend with us this qtr, but agreed that "next time" we would be the recipient of MORE! I need to confirm all of this with Brennan to avoid more drama.

\* Brennan agreed that since we were paying \$235M this qtr for the Atlantic to drop his request for us to pay the \$40M on the Canadian fiber they haven't delivered.

Patrick

**CONFIDENTIAL**

**From:** Legere, John  
**To:** Winnick, Gary  
**CC:**  
**BCC:**  
**Subject:** NEWS: SingTel cable client faces cashflow blocks - May 02, 2001 {F}  
**Date:** 5/2/2001 11:03:51 AM  
**Attachments:**

---

Are you referring to SingTel CEO B.G. Lee? If so, what is the topic? just a hello?

FYI...I have not been able to get a return call or e-mail from Steve Green since last week...so I am out of the loop on any mtgs you are having relative to AGC issues....like this possible mtg. This can be dangerous and de-positioning for me...any input would be appreciated.

John Legere  
john.legere@asiaglobalcrossing.com  
Visit [www.asiaglobalcrossing.com](http://www.asiaglobalcrossing.com)

-----Original Message-----

From: Davidson, Nancy On Behalf Of Winnick, Gary  
Sent: Wednesday, May 02, 2001 10:54 AM  
To: Legere, John  
Subject: RE: NEWS: SingTel cable client faces cashflow blocks - May 02, 2001

John,

I'm meeting with G. Lee tomorrow morning. Please send any additional information/comments to Nancy to fax to me. Thanks.

Gary

-----Original Message-----

From: Legere, John  
Sent: Tuesday, May 01, 2001 7:13 PM  
To: Winnick, Gary; Casey, Tom; Cook, Lodwick  
Cc: Scanlon, Jack; Christie, Anthony; Legere, John  
Subject: FW: NEWS: SingTel cable client faces cashflow blocks - May 02, 2001  
Importance: Low

Good news travels fast!

I am looking at what role if any we should play in the resolution of this with SingTel....

John Legere  
john.legere@asiaglobalcrossing.com  
Visit www.asiaglobalcrossing.com

<<http://www.straitstimes.com.sg/home/0,1869,,00.html?>> The Straits Times Interactive  
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<[http://straitstimes.asia1.com.sg/mnt/static/image/ax/t\\_ax220int.gif](http://straitstimes.asia1.com.sg/mnt/static/image/ax/t_ax220int.gif)>  
Home Page <<http://straitstimes.asia1.com.sg/mnt/static/image/ax/ax5money.gif>>

Singapore

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FAIR

High Low

33°C 24°C

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MAY 02, 2001

WEDNESDAY

7day archive <<http://straitstimes.asia1.com.sg/mnt/static/image/ax/7day.gif>>

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## CONFIDENTIAL

From: Goff, Tom

To: Winnick, Gary; Casey, Tom; Cook, Lodwick; Cohrs, Dan; Legere, John;  
Gorton, Jim; O'Neill, Justin; Perrone, Joseph P; Rossi, Kirk; Riesenfeld, Stefan;  
Simril, Ken; Walsh, David

CC:

BCC:

Subject: CONFIDENTIAL (Read and respond by 8:00 AM Eastern Wednesday)

Date: 5/8/2001 3:04:22 PM

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Attachments:

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Below, for your immediate review, is the text of our First Quarter 2001 financial release.

Please copy Ken Simril and Dan Cohrs with any comments -- no later than 8:00 AM Eastern U.S. Time tomorrow, Wednesday.

/Tom Goff sends ...

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Q1-01 Earnings Release: Draft H (Conway) 5/8/01 2:46 PM

Global Crossing's Pro Forma Recurring Adjusted EBITDA up 43% and Pro

GX-HEC-47349

Forma Cash Revenue up 39% from First Quarter of 2000

\* Commercial Service Revenue increased 7% sequentially with Commercial Data Services up 12% sequentially.

\* Telecommunications Service Revenue increased 10% sequentially with total Data Services up 16% sequentially.

\* Cash Revenue from Data Services increased 59% from first quarter 2000; represents 63% of Telecommunications Services Cash Revenue, up from 52% one year ago, pro forma for acquisitions and dispositions.

\* New York Public Service Commission and FCC approved the Company's incumbent local exchange carrier sale to Citizens Communications for \$3.5 billion cash, with expedited closing expected in June 2001.

\* The Global Crossing Network, nearly 90% complete, became the first network to implement Multi Protocol Label Switching as a backbone transport technology on a global basis, enabling Global Crossing to offer the most robust VPNs worldwide.

Hamilton, Bermuda - May 9th, 2001 - Global Crossing Ltd. (NYSE: GX), which provides integrated telecommunications solutions over the world's most extensive global IP-based fiber optic network, today reported results for the quarter ended March 31, 2001. For its continuing operations, the Company reported first quarter Cash Revenue of [\$1,613] million, Recurring Adjusted EBITDA of [\$441] million, and a Recurring Net Loss of [\$608 million], or [\$0.69]

per share.

Tom Casey, Chief Executive Officer of Global Crossing, said, "We are extremely pleased with our strong first quarter results, which began to reflect our transformation from a carrier's carrier to a value-added telecommunication services provider. We continue to leverage the competitive advantages of our global network and increasingly strong sales team to expand and diversify our revenue streams. Our commercial services segment performed particularly well, with sequential growth of 12% in commercial data services."

#### SUMMARY OF QUARTERLY PRO FORMA RESULTS

Results for Continuing Operations exclude Global Crossing's ILEC business, which the Company has agreed to sell to Citizens Communications for an estimated \$3.5 billion in cash, with closing anticipated in June of this year; and GlobalCenter, whose sale to Exodus was completed on January 10, 2001 for 108.2 million shares of Exodus common stock.

Unless otherwise noted, period-to-period comparisons for Continuing Operations throughout this press release are discussed giving pro forma effect to all acquisitions and dispositions as if each had occurred on January 1, 2000. Detailed pro forma comparisons are shown in the attached schedules.

#### Summary of Quarterly Pro Forma Operations:

##### Three Months Ended Change

March 31 2001 March 31 2000 Amount Percent  
(Unaudited) (Unaudited)

(in millions)

##### Pro Forma Continuing Operations (1)

Cash Revenue \$1,613 \$ 1,160 \$ 453 39%

Recurring Adjusted EBITDA \$ 441 \$ 307 \$ 134 43%

(1) The Pro forma amounts in the table above reflect, for both periods presented, the Company's formation of Hutchison Global Crossing, the acquisitions of IPC/IXnet and the dispositions of both the ILEC and GlobalCenter, as if each had occurred on January 1, 2000.

#### Telecommunications Services Segment

During the quarter, the Company expanded its strong presence with customers in the Carrier and Financial Markets sectors, signing new contracts with customers such as Lockheed Martin Global Telecommunications, U.S. Cellular, BNP Paribas, JP Morgan Chase & Co., Dresdner Bank, Enron Trading and the Chicago Stock Exchange. New service contracts were also signed with multinational corporations such as Hoffman-LaRoche, GE Medical, Warner-Lambert/Pfizer, Ticketmaster, and xxxxx.

Global Crossing also announced a service and solutions offering that will enable the media and entertainment industry to communicate and collaborate over the Global Crossing network. In conjunction with this effort, the Company announced a strategic partnership under which Constellation Ventures will allocate \$100 million towards the development of applications by emerging software and service-based companies for the media and entertainment industry. In addition, the Company announced co-marketing agreements with BBC Technology and VDI Multimedia to jointly market an extensive suite of solutions that will streamline processes and introduce next generation broadband services to this industry. In partnership, the companies intend to offer potential customers the bandwidth and services necessary to seamlessly create, collaborate and connect in a fully secure, digital environment.



## Telecommunications Services Financial Result

The Telecommunications Services segment, which is comprised of commercial, consumer and carrier businesses for bandwidth, data, voice, audio/video conferencing and other value-added services, recorded Cash Revenue growth of 30% and Adjusted EBITDA growth of 45%, from the first quarter 2000. Total Service Revenue for the segment, which excludes the effect of the sale of capacity as IRU's, increased 27% from the first quarter of 2000, and 10% sequentially, to \$1,046 million. The strong growth in Telecommunications Service Revenue reflects the Company's increased focus on services and enterprise customers.

For all data services, Cash Revenue was up 59% from first quarter 2000, now accounting for 63% of Telecommunications Services Cash Revenue, up from 52% in the first quarter of 2000. Service Revenue from all data services increased 44% from the first quarter of 2000, and 16% sequentially.

Within Telecommunications Services, the Commercial sector recorded solid sequential revenue growth. Total revenue from voice and data services increased by 7% over fourth quarter 2000 results, with Commercial Data Revenue (including IP, Frame Relay, ATM and private line) increasing 12% sequentially.

For the Carrier segment, Cash Revenue was \$956 million in the first quarter of 2001, an increase of 46% over first quarter 2000. Within the carrier segment, data services revenue (including IP, Frame Relay, ATM and private line) experienced healthy growth, increasing 88% over the first quarter of 2000 and 23% sequentially. Cash Revenue from the sale of capacity in the form of IRU's was \$567 million for the quarter, an increase of 69% from the first quarter of 2000, and a slight decline from the fourth quarter of 2000. Included in this amount, and in Adjusted EBITDA, was [\$375] million received from significant carrier customers who have signed contracts during the quarter to purchase \$546 million of capacity on the Global Crossing Network, and to whom Global

Crossing made substantial capital commitments during the quarter (see "Network and Capital Plan" below).

#### Installation and Maintenance Services Segment

The Company's installation and maintenance business segment, consisting of its Global Marine subsidiary, reported revenue of \$209 million for the first quarter of 2001, as compared to \$161 million in the fourth quarter of 2000. During the quarter, the Company experienced an increase in revenue due to installation projects in the Far East on East Asia Crossing, and on other cable projects including APCN and TAT14.

#### Discontinued Operations - Incumbent Local Exchange Carrier & GlobalCenter

The Company's discontinued operations, consisting of its ILEC and GlobalCenter segments, reported revenue of \$191 million for the first quarter of 2001, with Recurring Adjusted EBITDA of \$98 million.

#### NETWORK AND CAPITAL PLAN

Global Crossing's core network is now operational over 88% of the planned route miles. The planned length of the network is approximately 100,000 route miles, reaching 27 countries and more than 200 major cities. The Company recently announced the first implementation of Multi Protocol Label Switching-traffic engineering (MPLS) as a backbone transport technology on a global basis. By enabling IP packets of data to be expressly routed directly to their final destination, in contrast to conventional ("best efforts") indirect routing methods, MPLS provides improved traffic engineering, faster fail-over times, a more scalable network architecture and, ultimately, more advanced network services. The deployment of MPLS technology over physical mesh architecture will enable Global Crossing to offer the most [robust] end to end VPNs worldwide. Global Crossing also recently added six voice over IP (VOIP) gateway centers in Europe, enabling the company to carry voice as IP traffic on its network between

Europe and the United States. Core VOIP gateway centers are in service in Amsterdam, Brussels, Copenhagen, Frankfurt, London, Paris and Tokyo, plus 15 additional tier-one markets in the United States. The VOIP platform is carrier class in scale and quality and is expected to have a capacity of more than [2 billion minutes per month] by the end of 2001. The VOIP platform reduces costs and serves as an enabling technology for converged voice, data and video services over a single connection, allowing customers to operate more efficiently. During the quarter, the Company entered into a multi-year agreement to provide Centennial Communications with \$150 million of fiber optic undersea capacity, to be provided over the existing MAC system, as well as over acquired or constructed new capacity, connecting Puerto Rico and the Dominican Republic to Miami. If constructed, the new system would have significantly more capacity than required for the Centennial contract and would cost an estimated \$160 million.

During the quarter, the Company also entered into several agreements with various carrier customers for the purchase of capacity and co-location space. These agreements were signed to acquire cost-effective local network expansions; as cost-effective alternatives to new construction in certain markets in which the Company anticipates shortages of capacity; and to provide additional levels of physical diversity in the network as the Company implements its global mesh architecture. These capital commitments totaled \$465 million. Notwithstanding the capital commitments described above, the Company reaffirmed its previously announced plans for capital expenditures of approximately \$10 billion in the aggregate for 2000-2001. The Company projects that the new commitments will be offset by a combination of network efficiencies, use of existing inventories, lower-than-planned prices from vendors, and spending at slower than budgeted rates. Capital spending for continuing operations during 2001 (including spending by Asia Global Crossing) is expected to remain approximately \$4.9 to \$5.1 billion, an amount that includes approximately \$1 billion of previously announced capital spending from the 2000

capital program for which payments will be made in 2001.

On April 25, 2001 the New York Public Service Commission approved the sale of Global Crossing's incumbent local exchange carrier business to Citizens Communications. This followed the approval by the Federal Communications Commission (FCC) on April 17, 2001. All remaining regulatory approvals are expected in May of 2001, with closing expected in June of this year. The cash consideration for the sale has been adjusted to \$3.5 billion to reflect changes in certain terms of the transaction, which included an agreement for expedited closing.

#### DEFINITION OF TERMS USED

Throughout this press release, Pro Forma results have been discussed, which give effect to the formation of Hutchison Global Crossing, all acquisitions (IPC/IXnet) and dispositions (ILEC and GlobalCenter), as if each had occurred on January 1, 2000.

In this press release, Revenue refers to revenue reported on the Company's statements of operations under Generally Accepted Accounting Principles. Cash Revenue refers to Revenue plus the cash portion of the change in deferred revenue. Service Revenue excludes all impacts of IRU sales, and refers to Revenue less any revenue recognized immediately for circuit activations that qualified as sales type leases; less the revenue recognized due to the amortization of IRU's sold in prior periods and not recognized as sales-type leases. Adjusted EBITDA refers to operating income (loss) plus goodwill and intangibles amortization, depreciation and amortization, non-cash cost of capacity sold, stock related expense and the cash portion of the change in deferred revenue, which definition is consistent with the financial covenants contained in the Company's major financing agreements. Recurring Adjusted EBITDA refers to Adjusted EBITDA plus one-time merger and integration

expenses and other non-recurring expenses. For all periods presented, net income generated by the ILEC and GlobalCenter businesses is reported as "Income from discontinued operations, net of taxes" on the accompanying Condensed Consolidated Statements of Operations.

#### ABOUT GLOBAL CROSSING

Global Crossing Ltd. (NYSE: GX) provides telecommunications solutions over the world's first integrated global IP-based network, which will have approximately 100,000 route miles, reaching 27 countries and more than 200 major cities. Global Crossing serves many of the world's largest corporations, providing a full range of managed data and voice products and services. Global Crossing operates throughout the Americas, Europe, and the Asia/Pacific region, and provides services in Asia through its subsidiary, Asia Global Crossing (Nasdaq: AGCX). Global Crossing Solutions provides integrated telecommunications solutions, including network outsourcing, to large global enterprises. Please visit [www.globalcrossing.com](http://www.globalcrossing.com)

<<http://www.globalcrossing.com>> or [www.asiaglobalcrossing.com](http://www.asiaglobalcrossing.com)

<<http://www.asiaglobalcrossing.com>> for more information.

###

Statements made in this press release that state the Company's or management's intentions, beliefs, expectations, or predictions for the future are forward-looking statements. Such forward-looking statements are subject to a number of risks, assumptions and uncertainties that could cause the Company's actual results to differ materially from those projected in such forward-looking statements. These risks, assumptions and uncertainties include: the ability to complete systems within currently estimated time frames and budgets; the ability to compete effectively in a rapidly evolving and price competitive marketplace; changes in the nature of telecommunications regulation in the United States and

GX-HEC-47357

other countries; changes in business strategy; the successful integration of newly-acquired businesses; the impact of technological change; and other risks referenced from time to time in the Company's filings with the Securities and Exchange Commission.

Contact Global Crossing

Analysts / Investors

Ken Simril

+1 310 385 5200

investors@globalcrossing.com <mailto:investors@globalcrossing.com>

Press

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+ 1 212 687 8080

kpolan@sardverb.com

Tom Goff

+ 1 310 385 5231

tgoff@globalcrossing.com

## CONFIDENTIAL

From: Sussis, Mitchell

To: Winnick, Gary; Casey, Tom

CC: Gorton, Jim

BCC:

Subject: Senior Executive Guarantee Program - David Walsh Application

Date: 5/24/2001 3:31:53 PM

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Attachments:

Sr Exec Gte Prog Walsh Mem to Admin Cte 5-24-01.doc

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Please see attached.

Mitch

<<Sr Exec Gte Prog Walsh Mem to Admin Cte 5-24-01.doc>>

GX-HEC-56020

Global Crossing Development Co.  
 Seven Giralda Farms  
 Madison, NJ 07940 U.S.A  
 Tel 973.410.8300  
 Fax 973.410.8330

## Memo



**To:** Gary Winnick  
 Tom Casey

**From:** Mitch Sussis

**Date:** May 24, 2001

**Subject:** Senior Executive Guarantee Program - David Walsh Application

David Walsh has applied for participation in the Senior Executive Guarantee Program and has requested a guarantee of \$7.5M. Each of you, together acting as the Administrative Committee under the Program, must take action on David's request. This memo is intended to provide you with information needed to make a decision on David's application.

According to information supplied by David and his broker, David's margin account contains 1,419,762 GX shares (worth \$20M at \$14.10 per share) subject to an outstanding loan of \$8.8M. Merrill Lynch currently applies no discretionary maintenance standard to this account. However, if GX drops below approximately \$10.00, Merrill will be required to make a margin call under the NYSE's mandatory maintenance standard of 40%.

David apparently owns no other marginable securities, although he has some private investments totaling approximately \$800,000. While he owns homes in Bronxville and East Hampton, NY, mortgage loans of \$4M and \$2.9M, respectively, leave him with little equity in these properties.

If GX were to provide David with \$7.5M of credit support, Merrill wouldn't need to make a margin call on David's account unless GX's share price were to drop below the \$5 minimum for marginable securities.

Please indicate below whether you approve of the issuance of a \$7.5M guarantee for David on the terms outlined above. If both of you approve, I will make arrangements with Merrill similar to those put in place for Lod at Salomon Smith Barney. Namely, we will open a Global Crossing brokerage account at Merrill and arrange for approximately 2,250,000 Exodus shares to be deposited into that account. These securities would then be subject to a one-year pledge to secure up to \$7.5M of David's margin loan.

M.C.S.

\* \* \* \*

PLEASE SIGN BELOW, INDICATE WHETHER YOU APPROVE OR DISAPPROVE OF THE PROPOSAL SET FORTH ABOVE, AND FAX THIS PAGE TO MITCH SUSSIS (973-410-8583) AT YOUR EARLIEST CONVENIENCE.

\_\_\_\_\_  
 Gary Winnick      ☐ Approved      ☐ Disapproved

\_\_\_\_\_  
 Thomas Casey      ☐ Approved      ☐ Disapproved

GX-HEC-56021



**CONFIDENTIAL**

**From:** Walsh, David  
**To:** Greenwood, Elizabeth  
**CC:** Casey, Tom  
**BCC:**  
**Subject:**  
**Date:** 5/29/2001 8:51:02 AM  
**Attachments:**

---

Liz;

I am planning to collar of sell approximately 500,000 ASAP. I am waiting to hear from Tom which he would prefer. In addition, Merrill is arranging for a personal loan backed by GX in the amount of \$7,500,000. Please let me know what assistance you need from me to make this happen. Steve Crow from Merrill will be working the details on my behalf. Thanks for you assistance.

David

**CONFIDENTIAL**

**From:** Sussis, Mitchell  
**To:** Casey, Tom  
**CC:** Gorton, Jim; Greenwood, Elizabeth  
**BCC:**  
**Subject:** David Walsh to sell 672,789{F}  
**Date:** 5/30/2001 7:50:10 PM

**Attachments:**  
Sr Exec Gte Prog Walsh Mem to Admin Cte 5-30-01.doc

Tom,

Liz passed along your email requesting a memo outlining the current situation with David. Please take a look at the attached and let me know if this is what you had in mind. Incidentally, I would recommend against allowing David to use the proceeds of a sale to repay the margin loan, only to have him then reborrow a portion of the amount paid down. Instead, I would suggest that he simply pay down the margin loan by the net amount and withdraw the excess proceeds. This may be a bit of form over substance, but I believe the latter approach will allow us to avoid going back to the Comp Committee because our guarantee will only be securing "old money", as opposed to newly borrowed amounts. Effectively, we've already taken this approach with Lod, who's using a small portion of his recent hedge for purposes other than repaying his margin loan.

Mitch

-----Original Message-----

**From:** Greenwood, Elizabeth  
**Sent:** Wednesday, May 30, 2001 9:01 PM  
**To:** Sussis, Mitchell  
**Subject:** FW: David Walsh to sell 672,789

-----Original Message-----

**From:** Casey, Tom  
**Sent:** Wednesday, May 30, 2001 5:21 PM  
**To:** Greenwood, Elizabeth  
**Subject:** Re: David Walsh to sell 672,789

Liz - Would you draft a memo to me outlining what David is doing, i.e., selling then remargining the newly freed up shares in June and taking our guarantee on that new margin loan. I will circulate it to the Comp. Cmte. For their acquiescence before approving. Thanks.

## Memo

Global Crossing Development Co.

Seven Giralda Farms  
Madison, NJ 07940 U.S.A  
Tel 973.410.8300  
Fax 973.410.8330



Global Crossing™

---

**To:** Tom Casey  
**From:** Mitch Sussis  
**Date:** May 24, 2001  
**Subject:** Senior Executive Guarantee Program – David Walsh Application

---

As explained in my May 24<sup>th</sup> memo to you and Gary, David Walsh has applied for participation in the Senior Executive Guarantee Program and has requested a guarantee of \$7.5M. Since the date of that memo, additional information has come to light that may impact your decision on David's application.

According to information supplied by David and his broker, David's margin account contains 1,471,349 GX shares (worth \$18M at \$12 per share) subject to an outstanding loan of \$8.8M. 672,789 of these shares are freely transferable (the "Unrestricted Shares"), while the remaining 798,560 shares remain subject to restrictions until June 14<sup>th</sup>, two days after the end of our current window period (the "Restricted Shares"). Merrill Lynch currently applies no discretionary maintenance standard to this account. However, if GX drops below approximately \$10.00, Merrill will be required to make a margin call under the NYSE's mandatory maintenance standard of 40%.

David apparently owns no other marginable securities, although he has some private investments totaling approximately \$800,000. While he owns homes in Bronxville and East Hampton, NY, mortgage loans of \$4M and \$2.9M, respectively, leave him with little equity in these properties, particularly after giving effect to our existing \$1.8M second mortgage loan.

David is interested in selling or entering into a variable forward in respect of the Unrestricted Shares. At \$12 per share, a sale would yield about \$8M, while a variable forward would yield about \$7M. David would like to use \$4M of the proceeds to pay down a separate mortgage loan, and to use the remaining \$3 or \$4M to pay down his margin loan. After the repayment, David would have a \$4 or \$5M margin loan balance and his margin account would contain 798,560 Restricted Shares worth about \$9.5M. Since these shares are non-transferable through June 14<sup>th</sup>, their margin value is significantly reduced through that date. David's broker is going to get back to us with the specifics, but it's likely that David would be in default under the applicable margin maintenance requirements unless something else were done. However, commencing June 14<sup>th</sup> (when the restrictions on the Restricted Shares lapse), David would be in compliance with the maintenance requirements so long as GX remains above approximately \$10.50 per share.

Assuming we were to allow David to sell or hedge his Unrestricted Shares immediately, there doesn't appear to be any reason to issue a \$7.5M guarantee. Instead, a \$4 or \$5M guarantee would fully cover his remaining margin loan, even assuming zero margin value for all of his Unrestricted Shares.

## CONFIDENTIAL

**From:** Walsh, David  
**To:** Casey, Tom  
**CC:**  
**BCC:**  
**Subject:** Quick Question{F}  
**Date:** 5/30/2001 2:34:47 PM  
**Attachments:**

---

Tom;

Any favors we want from Ellen? This is a good time to ask.

I am in Bruxelles for the analysts presentation.

I got your note on the revenue. I will be seeing Carl and I will get his thoughts. I am back in the office on Friday, do you have time for an update.

I am still having trouble doing the trade. Stock is falling and I can not cover the margin on a sale or a collar - here we go again. Can the company cover a two week one million dollar note?

David

-----  
**From:** Casey, Tom  
**Sent:** Tuesday, May 29, 2001 10:07 PM  
**To:** Reeves, Donna  
**Cc:** Walsh, David; Goff, Tom; Artin, Cynthia; SPENGLER, CHERYL  
**Subject:** RE: Quick Question

If Ellen is quoted, quote me as saying something about this as a manifestation of the power of our relationship and then quote you on the specifics of what it will offer to the M&E customers. Thanks.

-----Original Message-----

**From:** Reeves, Donna  
**Sent:** Tuesday, May 29, 2001 2:00 PM  
**To:** Casey, Tom; Goff, Tom; Artin, Cynthia; SPENGLER, CHERYL; Walsh, David  
**Subject:** Quick Question  
**Importance:** High

Tom - I tried to call, but you were unavailable and I am getting to board a flight to Brussels (analyst conference).

Background:

We (M&E) is doing a deal with Exodus to use them to house our Media Suites for up to 4 locations (LA, NYC, Tokyo and London) They will provide the choices for us for: Hosting, Storage, Managed Storage, ...all on a consumption basis and accelerates our being "in business". David and I are really

excited about this and I think the strett will get "that our selling our hosting asset, doesn't mean that we can still leverage it to our gain" I am particularly excited to get everything we need without having to do deals with all the different providers and get it extremely compitively.

Question:

Anyway, we are drafting a release and we are likely going to have Ellen Hancock quoted....the question is: Do you want us (for protocol or any other reason) to have you quoted as well. If so, let us know, we will run it all by you. If not, let us know and I and/or David will be. Tom Goff asked me to run it by you....let us know. thanks - Donna

**CONFIDENTIAL**

**From:** Fitzpatrick, Brian  
**To:** Walsh, David  
**CC:**  
**BCC:**  
**Subject:** The Quarter - "All Hands on Deck"{F}  
**Date:** 6/6/2001 12:06:13 AM  
**Attachments:**

---

I will provide as defined below..... I believe I will miss you this AM in Brussels (mobile #+44 7770 960 345). I will be leaving Brussels this AM to meet w/ France telecom this PM in Paris. I will call you this afternoon to discuss the bullets below.  
 Brian  
 06.06.01

-----Original Message-----

**From:** Walsh, David  
**Sent:** Wednesday, June 06, 2001 8:00 AM  
**To:** Fitzpatrick, Brian; Joggerst, Patrick  
**Cc:** Casey, Tom  
**Subject:** The Quarter - "All Hands on Deck"

Patrick and Brian;

Tom will be traveling back to Beverly Hills tomorrow to update Gary and Lod on the outlook for the quarter. Right after todays call could you prepare the update. I would like the report to be organized as follows:

1) Completed - contractually obligated - other singed deals - primary targets  
 (\$250 - \$300 million)

2) Strategic / Big Deals  
 \* Worldcom (size???)  
 \* Velocitia (\$50 - \$100 m)  
 \* Emergia (\$80 m)  
 \* China Netcom (\$50 m)  
 \* Teleglobe (???)  
 \* Flag (???)  
 \* Qwest (\$73m)

3) Total amount of the secondary targets with an estimate of what we think we can close - I would include the new Enron deal, The C&W-OEM prepay, The DTAG option, Telecom NewZealand, etc.

Please provide a brief description of each opportunity as well as the challenges we face in closing the business this quarter. Also list who the executive sponsor is for each deal.

file://D:\Carey arrett Fitzpatrick 07182002\EMAIL\000000000...000000001C03 0CD.HTM 9/21/02

We could also use some help from Gary and Tom on the Paytech deal. We need to find a way to bring that deal forward into this quarter. Could you also see how Barry Mc. and Peter L. is making out on the El Paso opportunity. We could probably use Lod's help here. These guys are traders - they could move fast. They have the money and the need - they claim to have a deep network in Texas - we could use their network in that area. Chip is working on our current spend. I will be presenting at the European Retail Sales Meeting and will not be able to attend the call today. Send me a copy of the report before you forward to Tom, I would like to review it first.

We might also want to include some color on the market. Tom can decide what he wants to include from that perspective.

David

**CONFIDENTIAL**

**From:** Walsh, David  
**To:** Casey, Tom  
**CC:** Winnick, Gary; Barker, Charles; Sgroi, Tony; Joggerst, Patrick; Fitzpatrick, Brian  
**BCC:**  
**Subject:** Enron  
**Date:** 6/11/2001 12:58:38 PM  
**Attachments:**

---

Tom;

Info moves fast - the Enron folks have already reached out for us. Thanks for putting the deal back in play.

David

> -----  
> From: Casey, Tom  
> Sent: Monday, June 11, 2001 3:48 PM  
> To: Walsh, David  
> Subject: FW:  
>  
> I asked him what the next to last sentence means.  
>  
>> -----Original Message-----  
>> From: Davidson, Nancy On Behalf Of Winnick, Gary  
>> Sent: Monday, June 11, 2001 3:27 PM  
>> To: Casey, Tom  
>> Subject:  
>>  
>> Tom,  
>>  
>> I spoke with Jeff SKilling and there are 3 people vying for the business  
>>  
>> we're one of them. They too are looking to do something here by quarter  
>> end. I indicated 300 for assets, 900 for reciprocal business. He  
>> indicated his people may want to do too. The lines of communication are  
>> open.  
>>  
>> Gary  
>>  
>>  
>



**CONFIDENTIAL**

From: Gorton, Jim  
To: Winnick, Gary  
CC:  
BCC:  
Subject: 2Q01 IRU Big Deal Funnel - URGENT/PLEASE READ(F)  
Date: 6/19/2001 5:12:26 PM

---

Attachments:  
2Q01 IRU Big Deal Funnel.xls

---

Gary, we have asked Patrick Joggerst to get us a list of target customers for our Board members to help us on (at your suggestion). Given that we are at the end of the quarter, Patrick rightly believes that the only deals that we should focus on at this critical moment are the IRU deals on the table. The attachment below has the big deals the Company is working on. The chart is constantly updated, so it is probably wise to check in with Patrick or Walsh before a call is actually made to see the current status. jim

-----Original Message-----

From: Joggerst, Patrick  
Sent: Friday, June 15, 2001 12:52 PM  
To: Gorton, Jim; Walsh, David; Cohen, Jeff; Wright, Robin; Fitzpatrick, Brian  
Subject: 2Q01 IRU Big Deal Funnel - URGENT/PLEASE READ  
Importance: High

Jeff called me to relay the message from Jim G. that the Office of the Chairman and the GC Board want to become engaged to help us win any and all deals

GX-HEC-47466

(after the press on NTL and Level3/FT deal -- as you know the L3 deal was a one yr lease to provide restoration to our ckt from HK to Tokyo, not a mega-deal in Asia).

With the end of the qtr upon us, Jeff and I agreed that for the next 2 weeks the best support we could get would be on the deals required to close the quarter. Attached is a BRIEF matrix of the large IRU deals that we have in the mix to help make the \$650M target. This spreadsheet include both a low and high for each deal; as well as two scenarios that COULD WITH A GREAT DEAL OF EFFORT get us to our target. We change this on an hourly basis. I have added a column to represent my initial thought on the senior executive support that may be effective. If there is a blank -- we are open to suggestions.

Please get you comments to me ASAP so that I can get this to David/Jim for Monday am.

Thanks,  
Patrick

<<2Q01 IRU Big Deal Funnel.xls>>

GX-HEC-47

## 2001 IRU BIG DEAL FUNNEL

|                             | Low           | High          | Scenario 1    | Scenario 2    | Support Requirements                            |
|-----------------------------|---------------|---------------|---------------|---------------|---|
| <b>Completed/Obligated:</b> | 34.99         | 34.99         | 34.99         | 34.99         |   |
| <b>Contracted – Risk:</b>   |               |               |               |               |   |
| Centennial                  | 15            | 15            | 15            | 15            | Must get final deal signed - Scanlon to support |
| Telecom Italia/La/Am Naut   | 177           | 191.64        | 190           | 190           | Must get as much as possible!                   |
| <b>Targets:</b>             |               |               |               |               |   |
| TNZI                        | 13.5          | 13.5          | 13.5          | 13.5          | Okay  |
| Telia                       | 5.6           | 5.6           | 5.6           | 5.6           | Okay  |
| Velocita                    | 25            | 50            | 50            | 50            | Jim G. to talk to Bob A.                        |
| C&W (pre-pymt)              | 0             | 20            | 10            | 20            | Tom to discuss with Graham                      |
| DTAG (AC-2, downpymt NoAm)  | 10            | 30            | 20            | 20            |   |
| Energia                     | 40            | 80            | 80            | 80            | Jose Ritos to talk to Allerta                   |
| FLAG                        | 30            | 35            | 35            | 35            | Okay  |
| Net2Phone                   | 20            | 30            | 20            | 30            | Gary/Tom to talk to Balter/Jonas                |
| Paelec                      | 0             | 10            | 10            | 10            | Gary/Tom to talk to Arunis                      |
| Qwest                       | 70            | 70            | 70            | 70            | Okay  |
| ChinaNetcom                 | 0             | 70            | 70            | 0             | Legerre managing                                |
| Concert                     | 0             | 35            | 0             | 35            | Tom/Dorman conversation                         |
| Irish Gov't                 | 0             | 18            | 20            | 20            | Working it local, maybe Tom talk to IDA         |
| Other small deals           | 5             | 25            | 10            | 20            | Working with regional carrier sales VPs         |
| <b>Total</b>                | <b>446.09</b> | <b>733.73</b> | <b>654.09</b> | <b>649.09</b> |   |

NOTE: THIS DOES NOT INCLUDE THE ENRON DEAL, COULD BE \$425M FOR THE QUARTER

GX-HEC-4746



## Global Crossing™

**TO:** Senior Sales and Marketing Organization  
**DATE:** June 22, 2001  
**FROM:** David Walsh  
**SUBJECT:** Sales Reviews for Closing The Gap

**DISTRIBUTION:**

|              |                |                   |
|--------------|----------------|-------------------|
| K. Cameron   | B. Fitzpatrick | E. Marshall       |
| T. Casey     | J. Gorton      | J. Perrone        |
| J.P. Clayton | C. Grivner     | P. Pluschke       |
| D. Cohrs     | P. Joggerst    | D. Reeves-Collins |
| J. Comparin  | P. Kayatta     | J. A. Rios        |
| J. Demitrius | P. Lacalamita  | B. Walsh          |
| L. Ercolano  | B. Levy        | T. Whelan         |
| B. Fink      | P. Lockwood    | R. Wright         |

**CC:**

|               |             |          |
|---------------|-------------|----------|
| C. Barker     | M. Janedis  | W. O'Ree |
| G. Breuninger | G. Lockwood | L. Pang  |
| G. Catherwood | M. Manioci  |          |

**I. OVERVIEW**

As we transition into a global organization, we will need to implement quarterly sales reviews. This will enable the company to better forecast our revenue trends, to properly size our operations infrastructure, and to address any deficiency in our product requirements. We have scheduled our Second Half Sales Review for Wednesday, July 11<sup>th</sup> and Thursday, July 12<sup>th</sup> at 88 Pine Street in New York City. The actual meetings will take place on the 30<sup>th</sup> floor in the Sky Room I Conference Room.

Each sales channel and the product marketing group will present their respective areas of business. On Wednesday we will focus on the Retail Customer segment. On Thursday, we will concentrate on Carrier/ Wholesale and Government markets, finishing the session with the Product Strategy and Management team. Operations personnel will also be in attendance. These two days will give us a world wide sales perspective for the second half of the year.

Presenters are not required to sit through all of the presentations. We ask each sales channel head to make the presentation along with his or her appropriate financial manager. In order to make the meeting and costs manageable, please limit the attendance from your group to one additional person.

## II. AGENDA

The agenda is as follows:

Wednesday, July 11<sup>th</sup>

| Presenter            | Subject                     | Time         |
|----------------------|-----------------------------|--------------|
| David Walsh          | Retail Overview             | 8:30- 9:00   |
| Peg Lockwood         | Multi National Corporations | 9:00- 10:30  |
|                      | BREAK                       | 10:30- 11:00 |
| Jim Demitrieus       | Financial Markets           | 11:00- 12:30 |
|                      | LUNCH                       | 12:30- 1:00  |
| Donna Reeves-Collins | Media & Entertainment       | 1:00- 2:30   |
| Louis Ercolano       | Enterprise Solutions Group  | 2:30- 4:00   |
|                      | BREAK                       | 4:00- 4:30   |
| Keith Cameron        | UK National                 | 4:30- 6:00   |
| David Walsh          | Wrap Up                     | 6:00- 6:30   |

Breakfast  
Voice  
Data  
Satellite  
Money/News  
Certs.

Thursday, July 12<sup>th</sup>

| Presenter                             | Subject                    | Time         |
|---------------------------------------|----------------------------|--------------|
| David Walsh                           | Carrier Overview           | 8:30- 9:00   |
| Brian Fitzpatrick<br>Patrick Joggerst | Wholesale/ Carrier Markets | 9:00- 11:00  |
|                                       | BREAK                      | 11:00- 11:15 |
| Paul Pluschke                         | Next Gen Markets Strategy  | 11:15- 12:00 |
|                                       | LUNCH                      | 12:00- 12:30 |
| Paul Kayetta                          | Government                 | 12:30- 1:45  |
| Peter Lacalamita                      | Bandwidth Trading          | 1:45- 2:30   |
| Bill Adiletta                         | Strategic Partnerships     | 2:30- 3:00   |
|                                       | BREAK                      | 3:00- 3:15   |
| Brian Fink/ ?                         | Product Overview           | 3:15- 6:00   |
| David Walsh                           | Wrap Up                    | 6:00- 6:30   |

## III. CONTENT

In order to standardize the presentations, we ask the sales leaders to adhere to the following outline.

- A. Organizational Structure
- B. First Half Sales Performance (by quarter)
  1. Compared to Budget
  2. Compared to 2000 (Year over year)
  3. By Product Category (Voice, Data, IRU, Turrets, Other)
- C. Second Half Sales Performance (by quarter) and Full Year
  1. Compared to Budget
  2. Compared to 2000
  3. By Product Category (Voice, Data, IRU, Turrets, Other)
- D. Headcount

1. First Half
2. End-of-year Projection
- E. Customers
  1. Top Ten by YTD Revenue and list Annual Projected Revenue
  2. Total Number of Customers
  3. Top 5 Prospects with Close Probabilities and Sales Strategy (measured by top probabilities and then revenue)
- F. Sales Productivity
  1. Revenue per Sales Rep
  2. Ranking by percent to Quota
  3. Expense to Revenue
- G. Customer Information
  1. Churn Statistics
  2. Identify At Risk Customers and Save Strategy
- H. For M&E, Government and NextGen
  1. Discuss key "Alliances" or "Strategic Partnerships" finalized or in final stages. Summarize their impact on revenue for 2001 and outline associated costs with each partnership.
- I. Challenges
  1. Specific Product Needs
  2. Operational Support
  3. Competitive Threats
  4. Other Risks
- J. Opportunities/Initiatives to CLOSE THE GAP

To ensure a consistent look and flow of each Sales Channel's Review, Ellen Marshall will be sending each of you the required presentation template. Specific financial data relative to budget, and actuals will be provided by Gary Breuninger in coordination with your financial managers.

#### IV. CONCLUSION

I do not need to remind you of the difficult business environment of the telecommunications industry; you are experiencing it each and every day. During the review, we will not spend a lot of time on the past or the first half. Instead, I want to concentrate on the future.

We are not attaining our budgeted revenue goals, and we must assess our sales performance for the balance of the year. We are in a catch-up mode. I am counting on each of you to help narrow our budget gaps and to generate significant sales momentum in the second half of 2001.

I look forward to seeing each of you on July 11<sup>th</sup> and 12<sup>th</sup>.

In the meantime, let's put forth every effort to make the 2<sup>nd</sup> quarter and the first half numbers.

**CONFIDENTIAL**

**From:** Joggerst, Patrick  
**To:** Walsh, David; Wright, Robin; Barker, Charles; Sgroi, Tony; Maccheyne, Barry; Rydzynski, Todd; Winkler, Wesley; Gorton, Jim; Alavanja, Peter T.; Casey, Tom; Ward, Mateo D.; BECCE, JOE; Fitzpatrick, Brian; GRIVNER, CARL  
**CC:**  
**BCC:**  
**Subject:** 2 Quarter deals -- Super sizing  
**Date:** 6/25/2001 12:26:18 PM

---

**Attachments:**

Quick update on Epik, Velocita, Emergia and Enron:

**EPIK:**

I spoke with Wes Winkler -- he and Tim Gaffney are with the Epik folks and are working toward a flexible basket of bandwidth deal for \$40M (we projected \$10-15M). This is reciprocal.

**VELOCITA:**

I left another message with Buddy Pickle re: super sizing the Velocita deal -- no message back. I got a hold of Bob Annunziata (we will see him tomorrow at their office) -- he said that he asked Buddy to consider the bigger deal (\$50M+ -- we were expecting ~\$25M). This deal will be reciprocal.

**EMERGIA/TELEFONICA:**

Still trying to push Emergia/Telefonica for \$60M -- they want ZERO this quarter. I asked E. Carride to consider this -- Jose Antonio will meet with Alierta on Wed to press for it (Alierta is the #1 in Telefonica world-wide).

**ENRON:**

We still need to find ~\$100M out of Enron -- Tony Sgroi, Todd R. and Chip are leading this one with David W. We may try to get 1-2 fiber pairs on their net -- Brian F. confirms that this is a requirement for the DTAG win-back for their North American network, which is looking positive!

More later.....

Patrick

**CONFIDENTIAL**

**From:** Wright, Robin  
**To:** Joggerst, Patrick; Walsh, David; Armstrong, Jackie; Higase, Ted; Young, Chris (AGC); Yaremko, Robert  
**CC:**  
**BCC:**  
**Subject:** A bump in the Qwest road  
**Date:** 6/25/2001 5:37:15 PM

---

**Attachments:**

We've agreed to move forward, but I wanted to alert you to an issue that came up this evening. It has to do with portability. Here's the deal:

In our deals with Qwest, any capacity/ducts/dark fiber that we buy from them has to be activated in order for them to get revenue recognition. Since in many cases, we buy a bucket of services, they just activate what they can and we in turn have the right to port that to what we want once we decide what we want. We have always agreed that the value of that is what we paid for it, not fair market value. Our argument has been that we do not want to be penalized for their rev recognition rules. Now, their accountants are insisting that it has to be fair market value. So, we in turn are adding this to our agreement on the sell side. In truth, they have more at risk due to the structure of the deal. In any case, we have no choice.

Susan and I agreed that Greg Casey and David would talk sometime tomorrow and just get a gentleman's agreement that we'd work together to establish pricing at the purchase price. David, I'll work it out with Jenn.

We also need to get some folks working full time on activating what we purchased so we won't have any issue.

Thanks, Robin

GX-HEC-41



470004082: CONFIDENTIAL

**CONFIDENTIAL**

**From:** Fitzpatrick, Brian  
**To:** Joggerst, Patrick  
**CC:**  
**BCC:**  
**Subject:** CONFIDENTIAL  
**Date:** 6/28/2001 2:50:59 AM

**Attachments:**  
 Qwest 0601 Signoff.xls

P. Joggerst-

We need to make sure we are all solving for the same problem. We need the top line revenue by the close of the quarter. In order to get it we have to spend a reciprocal amount with key carriers. In this case Qwest. Our option is to spend the same amount of cash and end up with nothing. I want to make sure the three of us are 100% together regarding the fact the eastern European market (Vienna - Prague), nor the Scandinavian market (up to Helsinki) would support the numbers that are stated in the attached business case. The Euro market is crashing. No one is spending \$700M on these routes.

I feel like we (you & I) are putting our names and careers on the line supporting this type transaction without having a discussion with the other officers about what we are really doing. I'm sure there is a bigger deal/discussion taking place that we have not yet been invited to..... Let's discuss. I'm in London +44.207.904.1812.

Brian  
 28.06.01

-----Original Message-----

**From:** Longo, John  
**Sent:** Thursday, June 28, 2001 7:04 AM  
**To:** Walsh, David; Casey, Tom; Perrone, Joseph P; Cohrs, Dan; GRIVNER, CARL; Dawson, S. Wallace; Wright, Robin; Joggerst, Patrick; Fitzpatrick, Brian; Barker, Charles; Gutierrez, Matthew; Alavanja, Peter T.; Wong, Joey (Wen Hai)  
**Cc:** Manske, Patricia; Hubatsek, Julie; Covine, Virginia; Platt, Emma; Cocozziello, Dorothy A.; Buchanan, Nadine; Thompson, Paget; Cox, Lisa; Carlyon, Susan  
**Subject:** Updated business case - Qwest deal

Attached is the updated DRAFT business case for the Qwest deal. The deal consists of six components:

1. Vienna - Prague extension
2. Helsinki extension
3. TAT 14 backhaul in (France)

file://D:\Carey arrett Fitzpatrick 07182002\EMAIL\0000000000...\000000001C03 172.HTM 9/21/0

4/0004062: CONFIDENTIAL

4. Southern Cross backhaul (US)
5. Frankfurt - Eschenfeld DF
6. GNO - like wavelength purchase

The case assumes the components are part of a packaged deal and only available in this bundle; therefore, the financial value of the total deal is the relevant decision factor. To provide a valid analysis, the related Q1 Qwest deal elements were incorporated and the additional network extension capital components for the network extensions have been included. To identify the total deal value, we separated the Vienna - Prague extension from the other components and analyzed it against the original business case for that extension.

This deal improves the original Vienna - Prague extension economics by \$ 5M, but the NPV for that segment remains negative \$ 36 M. The business case for all the other components (2 - 6 above) has a positive NPV of \$ 39M bringing the NPV for the overall case to positive \$3.4 M. There are considerable assumptions and risks that are outlined in the attached summary. The case needs to be updated in the morning based on validation of the Helsinki market forecast and the capital required for optronics. The current Helsinki market forecast represents the revenue required to drive a positive business case.

John

-----Original Message-----

From: Walsh, David  
 Sent: Tuesday, June 26, 2001 4:10 PM  
 To: Casey, Tom; Perrone, Joseph P; Cohrs, Dan; GRIVNER, CARL; Dawson, S. Wallace; Wright, Robin; Joggerst, Patrick; Fitzpatrick, Brian; Barker, Charles; Gutierrez, Matthew; Longo, John; Alavanja, Peter T.; Wong, Joey (Wen Hai)  
 Cc: Manske, Patricia; Hubatsek, Julie; Covine, Virginia; Platt, Emma; Cocozziello, Dorothy A.; Buchanan, Nadine; Thompson, Paget; Cox, Lisa; Carlyon, Susan  
 Subject: Conference Call

Given that we are days away from the end of the quarter and we are in various stages of negotiations and business case development, I thought it would be helpful to have a conference call Wednesday and Thursday afternoons to get everyone up to speed and expedite the approval processes. Please join us at the following times:

Wednesday: 5:00pm EST  
 Thursday: 6:30pm EST

Domestic: 1-800-232-0360  
 International: 1-303-633-6223  
 Passcode: 6022461

Thanks for your help.

David

file://D:\Carey arrett Fitzpatrick 07182002\EMAIL\0000000000...000000001C03 172.HTM 9/21/02

**CONFIDENTIAL****From:** Covine, Virginia**To:****CC:****BCC:****Subject:** Qwest Conference Call [Winnick/Casey/Walsh/Gorton/Cohrs, et al 877-200-3145 Pass 8146424**Date:** 6/28/2001 9:01:09 AM**Attachments:**

Reminder Before Start: 6/28/2001 8:45:00 AM

Reminder Set: False

Start Date: 6/28/2001 9:00:00 AM

End Date: 6/28/2001 10:00:00 AM

Busy Status: Busy

Location:

Duration: 60

Response Status: 0

Is Recurring: False

Recurrence Type: Weekly

7/9 mm

in person: TC, John Comp., Jose Rios, Carl Bruner, Joe Per.  
 phone: Cohen, Clayton  
 absent: Walsh; ~~John~~, ~~Clayton~~, LMC?  
 support: S. Cook

## H.B. Headcount Update:

Compazine - headcount review

↳ hold off announcement of layoffs until

have numbers for 2nd Q release

coordination - no, have to layoff by 7/14.

↳ letter from TC to employees re:

layoffs - Compazine + S. Cook are

working on it

↳ Cohen to do "mini -"

↳ include non-estate closures

↳ restructuring change

↳ guidance for rest of year?

Integration  
 of  
 1st Q 1.9615, 507 IRLI  
 2nd Q 1.45?, 590 IRLI  
 1st to 2nd Q

the mix of the growth is hard to explain in

a "mini - annctn".

7/26 - <sup>100%</sup> restructuring annct. a 1st to 2nd Q?CONFIDENTIAL  
GX-HEC-401

Global Marine - forecast at 1.59 2nd Q

Revis 1.044 1.045

1st Q Tel Com Services was 851 856

Global Marine was 195 159

*suggested  
also by  
pro 7/10*  
Revising Adj. EBITDA to exceed avg. analyst forecast  
Revising cash revenue meets " " "  
Semi rev. increased by 4% Q on Q  
and X% year on year.

? What to say about guidance for rest of year?

? What to say about reciprocal deals?

for 7/10 Schae, Saand + Jim G. to work on emp. release  
Dan, George Snd, + Jim G. to work on release today.

Jim \* Discuss BOD mtg agenda in August? maybe  
do telephonic earlier and cancel Aug. mtg  
to give BOD review of earnings etc.

\* John Comp. to send around Level 6 list and abuse  
tomorrow.

10,044 Total GX after reductions

1,500 Global Marine

11,500 emp. going forward approx.

CONFIDENTIAL  
GX-HEC-40097

prohibition on new hires going forward?  
 ↳ only if replacement  
 ↳ first try to do "out replacement for  
 60 ~~90~~ days, then if have to replace,  
 put in requisition.

Sales

CSC

Defense Research + Engineering @ } Paul K.  
 gov't contracts.

NDA?  
 consultant?  
 @

Bob Herbold → ~~reassignment~~ CIO at Microsoft did some  
 review consultant work on our OPS. - gave feedback  
 to Carl + Tom. - get him into Mercer process?

1. - SAP review
2. - Marketing review
3. - Mercer

Discussion of which systems to keep or change.  
 Accenture?  
 SAP?

Joe  
 Perrowe

- Review handout of "Prospect-to-Cash"

- unbudgeted capital
  - leases
  - consultants
  - cost of access
- } pull away from  
 sales totally or  
 give real budget  
rock solid w/ accountability.

Person

→ Discussion of Marketing Budget

- what cuts? globally? 97 - cut 50 → 47m.

Bill  
Woods  
{ 20% of the 87 belongs to someone else? who?  
So he will take 40m out + 10m to 50m basic  
- no television advertising for rest of year. 08?

Person

→ Real Estate Plan

↳ move woodland 446 to B.H.

QOD Dates for next year?

need to be more in line w/ financial  
reporting? go back to 4 times/year.

11471406: {F}

Page 1 of 1

**CONFIDENTIAL**

**From:** Rossi, Kirk  
**To:** Casey, Tom; Cohrs, Dan  
**CC:**  
**BCC:**  
**Subject:** {F}  
**Date:** 7/29/2001 3:04:11 PM  
**Attachments:**  
Adjusted Page.xls

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-----Original Message-----

From: Rossi, Kirk  
Sent: Sunday, July 29, 2001 3:03 PM  
To: Casey, Tom; Cohrs, Dan  
Subject:  
Importance: High

&lt;&lt; File: Adjusted Page.xls &gt;&gt;



Global Crossing  
 Carrier Division (IRU Sales)  
 Q2 2004 Non-recurring Revenue Funnel Summary  
 (Recognized and Cash/Deferred Revenue - in millions US\$)  
 Date : June 30, 2004

| Customer Name             | Capacity Description                     | Total Contract | Adjustment to EBITDA | Total Contribution | GX Capacity Commitments |
|---------------------------|--|----------------|----------------------|--------------------|-------------------------|
| <b>I. COMPLETED</b>       |  |                |                      |                    |                         |
| DTAS                      | ACL, prepaid Q3 Q4&M                     | NA             | 4.20                 | 4.20               |                         |
| Thermax                   | 12 STM-16 Serial to US                   | 20.00          | 4.00                 | 4.00               |                         |
| TECHTEL                   | TAC DF                                   | 8.00           | 8.00                 | 8.00               |                         |
| China Netcom              | QAG 100Mbps link 2.1 Gbps Serial HW - UK | 45.00          | 8.00                 | 45.00              |                         |
| China Telecom             | 2 STM-16 (100G) to 100G                  | 32.00          | 17.75                | 14.25              |                         |
| DirecNet                  | 2 STM-16 (100G) to 100G                  | 66.50          | 73.00                | 73.00              |                         |
| DirecNet                  | 2 STM-16 (100G) to 100G                  | 19.75          | 19.75                | 19.75              |                         |
| Telecom Italia            | SAC Dim Fiber and MAC waves              | 438.00         | 170.00               | 170.00             |                         |
| Wicel                     | QHO                                      | 17.14          | 17.14                | 17.14              |                         |
| BTAG                      | 10 Gbps wavelength AC-2                  | 10.50          | 10.50                | 10.50              |                         |
| Flag Telecom no. 2        | QHO                                      | 32.50          | 32.50                | 32.50              |                         |
| Prologis-pmt              | 2 STM-16 (100G) to 100G                  | 4.50           | 4.40                 | 9.40               |                         |
| Sin Equant                | SAC 1:1 STM-16 BA to SP (2nd order)      | 15.00          | 2.88                 | 2.88               |                         |
| Tecnet                    | DC-3 Caracas - Miami                     | 1.00           | 1.00                 | 1.00               |                         |
| Versatel                  | 2 STM-16 (100G) to 100G                  | 2.40           | 1.40                 | 1.40               |                         |
| Intersat                  | Net no concept Netherlands               | 1.40           | 0.65                 | 0.65               |                         |
| Telia                     | Colocation IRU's                         | 9.00           | 5.30                 | 5.30               |                         |
| DirecNet                  | STM-16 (100G) to 100G                    | 2.00           | 0.65                 | 0.65               |                         |
| UPSAT                     | Duct - VZ                                | 2.07           | 2.07                 | 2.07               |                         |
| Belgacom                  | PEC DF                                   | 10.00          | 2.70                 | 2.70               |                         |
| DTAG                      | 2&w release of prior deposit PEC         | 137.00         | 0.55                 | 0.55               |                         |
| Telia                     | PEC DF                                   | 12.00          | 1.34                 | 1.34               |                         |
| Telecom Austria           | 48 Fiber pairs on the bridge             | 6.00           | 3.77                 | 3.77               |                         |
| Verizon                   | Dark Fiber lease                         | 5.49           | 1.34                 | 1.34               |                         |
| Verizon                   | PEC DF Amster - Ldn                      | 1.68           | 0.84                 | 0.84               |                         |
| PSI Net                   | SAC installment payment                  | 23.00          | 2.03                 | 2.03               |                         |
| Bef Scout Movicon         | STM-16 (100G) to 100G                    | 4.20           | 0.25                 | 0.25               |                         |
| CIETERNAL                 | 4 STM-16 (100G) to 100G                  | 27.50          | 15.00                | 15.00              |                         |
| Comsat                    | Balance from Q1                          | 21.20          | 2.00                 | 2.00               |                         |
| Digital World             | 1 STM-16 (100G) to 100G                  | 0.54           | 0.14                 | 0.14               |                         |
| ENTEL                     | STM-16 (100G) to 100G                    | 3.73           | 1.58                 | 1.58               |                         |
| EPIC                      | 4 STM-16 and 3 STM-16 to SAC             | 40.00          | 40.00                | 40.00              |                         |
| Netel                     | QHO                                      | 20.00          | 10.00                | 10.00              |                         |
| Telecom New Zealand       | STM-16 (100G) to 100G                    | 13.50          | 13.50                | 13.50              |                         |
| TRICOM                    | STM-16 (100G) to 100G                    | 1.25           | 0.85                 | 0.85               |                         |
| MPST                      | Capacity TED                             | 1.00           | 1.00                 | 1.00               |                         |
| Quasit                    | 2 STM-16 (100G) to 100G                  | 8.00           | 8.00                 | 8.00               |                         |
| Coasta                    | Domestic U.S.                            | 7.00           | 4.00                 | 4.00               |                         |
| Dista Communications      | Domestic U.S. DS-3 and OC-3              | 2.00           | 0.85                 | 0.85               |                         |
| Verizon                   | 2 G8 Wave Domestic U.S.                  | 33.60          | 35.00                | 35.00              |                         |
| Vodafone                  | Dark Fiber UK                            | 65.00          | 0.80                 | 0.80               |                         |
| DNL                       | Dark Fiber UK                            | 1.22           | 1.22                 | 1.22               |                         |
| Scotish Energy            | Dark Fiber UK                            | 0.32           | 0.32                 | 0.32               |                         |
| Estimated FX loss (RACAL) |  | 0.60           | -1.60                | -1.60              |                         |
| Estimated FX loss (RACAL) |  | -12.8          | -12.8                | -12.8              |                         |
| RACAL Q1 adjustment       |  | 0.00           | -11.89               | -11.89             |                         |
| <b>TOTAL COMPLETED</b>    |  | <b>1342.71</b> | <b>507.4</b>         | <b>549</b>         | <b>549</b>              |

TOTAL CASH YCD Q3 CAPACITY EXCHANGES 0.15  
 SUBTRACT T1 DEAL - SIGNED IN Q3 '00 (170.00) (79)  
 TOTAL CASH YCD Q2 CAPACITY EXCHANGES 34.5  
 ADDITIONAL COMMITTED RECEIPTS FROM Q2 DEALS 36

TOTAL CAPACITY COMMITMENTS FROM CUSTOMERS 349  
 TOTAL CASH COMMITMENTS BY GX TO CUSTOMERS 349

## CONFIDENTIAL

**From:** Cohrs, Dan  
**To:** Casey, Tom; Simril, Ken; Dullabh, Susan; 'jperrone@globalcrossing.com'; Williamson, Jim  
**CC:**  
**BCC:**  
**Subject:** Qwest accounting  
**Date:** 8/3/2001 11:42:32 AM  
**Attachments:**

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[http://www.thestreet.com/\\_yahoo/markets/detox/1509860.html](http://www.thestreet.com/_yahoo/markets/detox/1509860.html)

This story says that Qwest is booking sales type lease revenue as GAAP revenue and not breaking it out. At least we get credit for breaking it out. The bad news is that this is raising visibility on the swap issue.

PERSONAL AND CONFIDENTIAL

August 6, 2001

Mr. James Gorton  
General Counsel  
Chief Ethics Officer  
Global Crossing, Ltd.  
360 N. Crescent Drive  
Beverly Hills, California 90210

Dear Jim:

I'm very disturbed by information I have received regarding certain recent accounting and financial reporting matters of both Global Crossing and Asia Global Crossing. I'm concerned that investors and commercial bankers may have been intentionally misled about these companies' reported Cash Revenues, Adjusted EBITDA, Net Earnings, etc. during the three quarters ended June 30, 2001.

My concerns fall into three areas:

1. Cash Revenue and Adjusted EBITDA of Global Crossing, and Proportionate Cash Revenue and Proportionate Adjusted EBITDA of Asia Global Crossing, are not measures of cash receipts or earnings and are misleading.
2. Amounts reported as Cash Revenues and Adjusted EBITDA may have been falsely inflated by 1) including amounts for which cash had not been received; and 2) structuring swaps or non-monetary exchanges of capacity as cash transactions by "round tripping" the cash.
3. Certain expense accounting matters.

Cash Revenues and Adjusted EBITDA metrics are misleading.

As you know, Global Crossing's revenues originally consisted of sales of capacity known as Indefatigable Rights of Use (IRUs). Such sales-type leases were recorded as GAAP revenue if they met the criteria for revenue recognition contained in the footnotes to the company's financial statements: 1) the purchaser obtains the right to use the capacity, which can only be suspended if the purchaser fails to pay the full purchase price or fulfill its contractual obligation, 2) the purchaser is obligated to pay OA&M costs, and 3) the segment of a system related to the capacity purchased is available for service. Capacity sales were generally for cash and circuits identified and provisioned to give the purchaser the right of use.

Effective July 1, 1999 the FASB issued FIN 43 which resulted in sales of capacity being accounted for as operating leases. Because Global Crossing continues to receive up-front cash payments for sales of capacity it now books the revenue as "deferred revenue" on

the balance sheet. To overcome the inconsistency with financial statements issued prior to July 1, 1999 the Company began focusing investor's attention on two non-GAAP measurements – "Cash Revenue" and "Adjusted EBITDA". "Cash Revenue" was defined as GAAP Revenue plus the cash portion of the change in deferred revenue. "Adjusted EBITDA" was defined as operating income (loss) plus goodwill and intangible amortization, depreciation and amortization, non-cash cost of capacity sold, stock related expense, and the cash portion of the change in deferred revenue. Readers of financial statements were told that these amounts were comparable to results of operations of prior periods. The Company told the financial community that the differences are due to revenues from IRU sales that the company would have recognized as GAAP Revenue in the period had Fin. 43 not been issued. I believe investment analysts and commercial bankers continue to define these metrics in this manner.

When Credit Lyonnais Securities recently initiated coverage on Global Crossing, Rick Grubbs noted in his assumptions that "The accounting method used for capacity IRU and dark fiber sales changed effective July 1, 1999 following the FASB issuance of "Interpretation No. 43" on real estate sales. This interpretation holds that sales-type lease accounting will no longer be appropriate for this type transaction, whereby cash can be booked as revenue in the period it is collected. Rather IRU's and dark fiber sales should be accounted for as operating leases, where up-front cash revenues are recognized as GAAP revenues over a period of time – typically over the course of 20 – 25 years." He assumed in his model that "Global Crossing will collect around \$2 billion in cash from IRU sales in 2001" and included such amounts in "Cash Revenue" and "Adjusted EBITDA". This explanation has been universally accepted by all of the financial analysts following the company. See also UBS Warburg's Credit Research Report on the Company dated June 29, 2001. Adjusted EBITDA is also used by the Company's commercial bankers to determine the amount of debt the company can service and is used in financial covenants of the company's major financing agreements.

In the quarter ended March 31, 2001 the earnings announcement headline was "Global Crossing's Pro Forma Recurring Adjusted EBITDA up 43% and Pro Forma Cash Revenue up 39% from first quarter of 2000". This is typical of other quarterly releases. Cash Revenue and Adjusted EBITDA are the primary focus of the company's financial communications.

What do these metrics mean?

1. Cash Revenue –
  - a. Is it cash? No. The underlying GAAP Revenue is on the accrual basis of accounting. To arrive at "cash" the underlying GAAP Revenue must be adjusted for changes in accounts receivable giving rise to the GAAP Revenue. Consequently "Cash Revenue" is not the measure of cash receipts it is purported to be.
  - b. Is it Revenue for the period being reported? Originally it was intended to be a measurement of GAAP Revenue as it would have been calculated prior to the issuance of Fin 43. Inasmuch as other types of future service

revenue and cash receipts from sales in prior periods may now be included in Cash Revenue it is no longer consistent with the original concept and would not be considered "Revenue" for the period.

2. Adjusted EBITDA -

- a. Earnings before Interest, Taxes, Depreciation, and Amortization (EBITDA) is a measure of cash flow earnings before certain expense items. Adjusting EBITDA for the "change in cash Deferred Revenue" from IRU sales was consistent with the original concept of Cash Revenue noted above in 1.b. This theory falls apart when "cash deferred revenues" for future services and payments from sales in prior periods are included because such revenues are not earned during the period. They will be earned when the service is provided. Furthermore, there is no consideration given to future out-of-pocket costs to perform such services. For example, Asia Global Crossing's earnings release for the quarter ended June 30, 2001 indicates that \$50.1 million in prepayments for future services are included in Cash Revenue and Adjusted EBITDA. The Company may have received a cash prepayment but it is not "Revenue" and it is not "Earnings".

The deception has been very subtle. It appears that at some point the adjustment for "change in cash deferred revenue" began to be applied literally. It no longer mattered whether the cash was due to IRU sales that previously would have been GAAP revenue in the period. The Company never explained to the financial community that these metrics included increasingly greater amounts of cash receipts for future sales and services. I don't believe the commercial banks would knowingly include such amounts in their calculations of Adjusted EBITDA for the periods. They are not "earnings" that can be used to service debt. Consequently I'm concerned about the Company's compliance with its debt covenants.

I'm concerned that these metrics have become very misleading inasmuch as they fail to measure up to the perception that they measure cash receipts cash flow earned in the period.

Concerns regarding inflated amounts of "Cash Revenue" and "Adjusted EBITDA"

During the year ended December 31, 2000 and six months ended June 30, 2001 it appears that it became more and more difficult for the Company to meet Wall Street's expectations of Cash Revenue and Adjusted EBITDA each quarter. Competition was increasing as additional cable systems became ready for service and prices of capacity continued to plummet. Customers knew if they waited until the end of the quarter they could negotiate significantly better deals. As a result I've been told that practically all of the deferred revenue transactions occurred in the last two - three days of each quarter. In many cases the routes were not identified and there was insufficient time to provision the circuits that had been identified. It appears that each quarter increasing amounts of cash deferred revenue came from transactions other than IRU sales that would not have been reported as GAAP Revenue prior to the issuance of Fin 43.

Possible examples include cash receipts from:

1. IRU sales that would not meet the criteria for revenue recognition in the period because either 1) the network is not complete, 2) the purchased capacity routing has not been designated by the purchaser, 3) the customer is not billed for OA&M, or 4) the purchased capacity has not been provisioned and therefore not available for the customers use.
2. IRU sales of prior periods.
3. Prepaid OA&M services to be performed over the 20-25 year life of the lease.
4. Prepaid telehouse rents.
5. Prepaid Conferencing services.
6. Prepaid telecommunication services.

Many of these deferred revenue items are for executory contracts for future services. The Company will incur substantial out-of-pocket expenses in fulfilling these obligations in future years. Such costs are ignored in the calculation of Adjusted EBITDA.

It also appears that many IRU sales during the first and second quarters of 2001 are conditioned upon the company having to buy capacity from the customer. It appears that certain transactions may have been structured as cash transactions rather than swaps or non-monetary exchanges to show greater amounts of Cash Revenue and Adjusted EBITDA. By having the cash change hands ("round tripped") it appears that the "sale" is generating positive cash flows. Furthermore the capital expenditure is ignored. It is a win - win for both parties to the transaction because they can each show positive "Cash Revenue" and "Adjusted EBITDA" and their cash balances remain the same. The only negative is that the "purchase" increases capital expenditures. These types of transactions must raise questions about pricing and possibly the use of the acquired capacity.

I have been told that over 80 percent of the change in cash deferred revenues in the first two quarters of 2001 resulted from swaps or non-monetary exchanges for which the cash may have been "round tripped" (There may be one transaction in the quarter ended March 31, 2001 where the gross amount of the sale transaction was included in cash deferred revenue although only the net amount of cash changed hands). In other words less than 20 percent of the change in cash deferred revenue is new cash that the company can use to pay down debt or fund operating expenses. As you know these amounts became so material in the quarters ended March 31 and June 30, 2001 that the earnings release contains language describing certain purchase commitments in the quarters.

In the second quarter earnings release it was reported that over \$1.1 billion of carrier IRU sales was reported in the first two quarters. I believe this may include other types of prepaid revenue for future services and cash receipts from sales in prior periods.

#### Concern about accounting for certain expenses

I have also been made aware of certain accounting issues regarding Company expenses that should be investigated including 1) the deferral of 1999 cost of access expenses to December 31, 2000 (and offsets); 2) the capitalization of IT Integration costs during 2000,

and 3) the capitalization of the operating lease for the Madison, New Jersey office complex in May, 2001.

Jim, this is a very complex issue that needs to be addressed. As an employee and a shareholder of Global Crossing I believe that a thorough investigation of all the facts should be undertaken and that appropriate action be taken immediately to correct any improprieties. I feel strongly that neither Dan Cohrs nor Joe Perrone should be involved in the investigation. Furthermore Joe Perrone and Arthur Andersen may have a conflict of interest inasmuch as he was the Engagement Partner on Global Crossing prior to joining the Company.

I am available to meet with you or whomever you feel is appropriate to discuss specific details regarding my concerns.

Sincerely,

Roy L. Olofson

Manske, Patricia

From: Walsh, David  
Sent: Monday, August 13, 2001 5:58 AM  
To: Fitzpatrick, Brian; Joggerst, Patrick; Nash, Chris  
Cc: Casey, Tom; Galfaso, Ines; Lukeroth, Nicole; Albright, Jennifer; Hasenstab, Jennifer  
Subject: RE: Big Deal Battle Plan

Good idea - see you tomorrow at 8:00 am est.

David

From: Nash, Chris  
Sent: Monday, August 13, 2001 8:13 AM  
To: Walsh, David; Fitzpatrick, Brian; Joggerst, Patrick  
Cc: Casey, Tom; Galfaso, Ines; Lukeroth, Nicole; Albright, Jennifer  
Subject: RE: Big Deal Battle Plan

Guys

I am putting three members of my team onto this between today and Thursday night (working on the "profile work" initially) assuming that the next meeting will be Friday morning Pacific time.

Any chance we could meet early tomorrow morning (8:00am Pine?) to co-ordinate, check we are not overlapping and brain-storm a bit to squeeze the juice between your effort and possible Corp Dev initiatives for the Friday meeting? Clearly one of the objectives is to document everything that is already being done and has been done.

Chris

> -----Original Message-----  
> From: Walsh, David  
> Sent: 10 August 2001 22:16  
> To: Fitzpatrick, Brian; Joggerst, Patrick  
> Cc: CookPCG, Lodwick; Casey, Tom; Huisman, Wim; Legers, John; Clayton, Joseph; Nash, Chris; Winnick, Gary; Rios, Jose Antonio; GRIVNER, CARL;  
> Webster, Rob  
> Subject: Big Deal Battle Plan  
>  
> Patrick and Brian;  
>  
> We need to put a battle plan together on the accounts listed below.  
> Winnick wants to make sure we are putting the right amount of energy in  
> the right places. We need an overall plan for each of the following "A"  
> accounts:  
>  
> France Telecom - assisted by Tom Casey  
> C&W - assisted by Carl Grivner and Chris Nash  
> Telephonica - assisted by Jose Antonio  
> Telelobe - assisted by John Legere  
> Bell South - assisted by Lod Cook  
> Verizon - assisted by Tom Casey  
> Worldcom - assisted by Gary Winnick and John Legere  
> DTAG - assisted by Wim Huisman and Joe Clayton  
>  
> We need some out-of-the-box thinking and a real team effort. We also need  
> to put together a list of "B" accounts. I would like to hear your  
> thoughts on who should be included on that list. My suggestion would be  
> to include the likes of Enron, El Paso, Level3 and Telmex. Please frame



807

- - > out these accounts into simple one page deal summaries that can be used
  - > for discussion purposes at our next Executive meeting.
  - >
  - > David
  - >

URGENT -- TIME SENSITIVE -- NEED YOUR VIEWS TO SUPPORTING BIG DEAL

## CONFIDENTIAL

From: Joggerst, Patrick

To: Higase, Ted; Young, Chris (AGC); Delorimier, Jami; Urmanowicz, Thomas; Ault, John; Mercogliano, John; Stukart, Marina; Ferdinand, Christoph; Bosch, Frits; McKenna, John J. (SAC, Miami); Thieme, Douglas; Maccheyne, Barry; Gascoigne, Linda; Rydzynski, Todd; Sgroi, Tony; Altaji, Omar A.; Thompson, Paget

CC:

BCC:

Subject: URGENT -- TIME SENSITIVE -- NEED YOUR VIEWS TO SUPPORTING BIG DEAL PLANNING FOR SELECTED ACCOUNTS!

Date: 8/14/2001 8:44:21 AM

Attachments:

Team,

Gary Winnick, Tom Casey and David Walsh have asked Carrier sales and Corporate development to work together to come up creative deals that we can tee up for 3rd and 4th quarter this year. I need you to get back TODAY with as much specific information as possible on these accounts. The corp development team is working on the corporate overviews, strategic and non-strategic assets that they hold and their financials.

What I need each of you to do is to summarize:

1. Business that we do with this customer (what we spend with them, if anything; and what they now spend/have spent with GC)
2. Offers that we have out to them at present (as much detail as you have -- at a minimum: what are we selling, when do they need it, what it, how much revenue, any specific extenuating circumstance (like reciprocity)
3. Other creative ideas that you think might peak THEIR interest (anything that they have asked for in the recent past -- do not edit out the parts that you think GC would be interested in).
4. Who are we positioned with in the company, and your take on who the decision maker/influencers are.

The following is the list of targets that will be further sorted based on your input. I have also taken the liberty of assigning who I'd like to be primarily responsible to get this info to us, and who they need to touch base with (the "lead") person is in CAPS.

PCCW/Reach: TED, Jami

NTT: TED, Jami

Singtel: TED, Jami

URGENT -- TIME SENSITIVE -- NEED YOUR VIEWS TO SUPPORTING DISSENT --

AT&T: TOM U., Patrick  
 British Telecom: JOHN AULT, John M.  
 France Telecom: MARINA, Christoph, John M., Frits, Brian  
 C&W: JOHN AULT, John M., Chris  
 Telefonica: JOHN MCKENNA, Patrick  
 Telecom Italia: JOHN M., Patrick  
 Teleglobe: JAMI, Doug, Brian  
 KDD: TED, Jami  
 Sprint: BARRY MC, Jami  
 Bell South: BARRY MC, Omar  
 WorldCom: TOM U/LINDA G., John M., Patrick  
 Verizon (incl. FLAG): BARRY, John M., Tony S., Brian, Jami  
 DTAG: CHRISTOPH, Frits, Brian  
 LEVEL 3: JAMI, Doug, Patrick  
 Enron: TODD R, Tony S., Patrick

Thanks for your QUICK turnaround on this!!!  
 Patrick

**CONFIDENTIAL**

**From:** Wright, Robin  
**To:** Walsh, David  
**CC:**  
**BCC:**  
**Subject:** follow up from 8/24 meeting on 2001 Revenue targets{F}  
**Date:** 8/30/2000 11:56:22 AM  
**Attachments:**

---

David,

I dropped off the call this morning, thought maybe the train noise was interfering. Anyway, I am very concerned with the IRU number. I sent the note below to Gary and Jon, and while I think they understand, I think the IRU number ends up being the plug number in order to meet the street's expectations. In addition to the notes below:

\* I would like to have someone walk us through exactly how much capacity we will have to sell (and the factory can presumably provision) and what the impact of that is if the market moves from IRUs to leases. I would also like to understand the growth rate they have factored in, in units, given their price assumptions. Do we need to sell 50% more? Twice as many STM1s?

\* There seems to be a disconnect between the Tingley budget and the bottoms up NA one that Clayton supposedly approved. The difference for my piece (my old piece) is around \$200M. The number Brian submitted (I believe) was \$630M and Jon is showing \$820M. Just to put that in perspective, in order to make up that \$200M, difference the team would have to sell 417 STM1 leases on AC1 in January. Ain't gonna happen.

Robin

> -----Original Message-----

> From: Wright, Robin  
 > Sent: Tuesday, August 29, 2000 5:41 PM  
 > To: Breauninger, Gary; Tingley, Jon B.  
 > Cc: Joggerst, Patrick; Fitzpatrick, Brian; Barker, Charles; Catherwood, Glenn; Marshall, Ellen B.  
 > Subject: RE: follow up from 8/24 meeting on 2001 Revenue targets  
 >  
 > Gary,  
 > I will be in route to a customer in DC tomorrow morning, but a couple  
 > of thoughts:  
 > \* I am very concerned about the number for IRUs here. From what I  
 > see (and maybe I'm reading this wrong), if I take out \$201M for GCNA, it  
 > leaves me around \$820M for international IRUs for North America. If I  
 > have a VERY good 4Q, I may make the original target of \$573M for 2000. I

> think a jump from there to \$820M is unreasonable. We need to be realistic  
 > about the fact that there will be a great deal more competition in 2001.  
 > We will not be the only game in the Atlantic and Pacific.  
 > \* We have been raising this issue since 1Q: we are seeing a migration  
 > from IRUs to leases and the implications are huge. For comparison  
 > purposes, here is the breakdown over the last year:  
 >  
 > <<...>>  
 > \* As you know, prices are dropping fast and, to some extent, we are  
 > our own worst enemy. When saddled with an unreasonable revenue  
 > expectations, we do the crazy deals at the end of the quarter. This, in  
 > turn, causes prices to drop which makes it more likely that we'll need to  
 > do another deal at the end of the next quarter. Case in point: We sold  
 > an STM32 to Qwest in 1Q for \$92M. We needed the revenue, I know, but what  
 > we did was lower the price point immediately from \$6M to \$4M.  
 > \* I know that we need to step up to growth and are willing to do it.  
 > Again, I may be misreading the chart, but if the number is \$820, we're way  
 > off base.  
 >  
 > Robin  
 > -----Original Message-----  
 > From: Breuninger, Gary  
 > Sent: Friday, August 25, 2000 4:54 PM  
 > To: Barker, Charles; Young, Chris; Joggerst, Patrick; Fitzpatrick,  
 > Brian; Wright, Robin; Madonna, Frank; Madonna, Frank J.; Reeves, Donna;  
 > Young, Chris; Mercogliano, John; Green, Darryl; Marshall, Ellen B.;  
 > Huisman, Maarten; Ercolano, Louis; Gruca, Joseph; Farrell, Richard;  
 > Kayatta, Paul J; Bosch, Frits; Ng, Alex; Walsh, Bill; GRIVNER, CARL;  
 > Wagner, Daniel; Meulen, Koos van der; HAHN, DONALD  
 > Cc: Walsh, David; Clayton, Joseph; Huisman, Wim; Sanchez, Diane; Muir,  
 > Donald; Winfield, Hank; Klug, Robert; Legere, John; Tingley, Jon B.;  
 > Arnold, Richard; Horowitz, Jonathan; BARR, SUE; Scarpati, John;  
 > 'bwood@globalcenter.net'  
 > Subject: RE: follow up from 8/24 meeting on 2001 Revenue targets  
 >  
 > As a follow up to the discussion Jon Tingley led on 8/24 regarding 2001  
 > revenue targets, attached you will find the updated revenue targets from  
 > one of the several scenarios we discussed. This view targets ~\$500M in  
 > Revenue from Outsourcing arrangements in 2001 as well as targeting an  
 > increased level of Data Capacity Sales.  
 >  
 > The intention of that meeting was to outline the possible approaches to  
 > achieving the 2001 revenue targets. On the call we reviewed several  
 > possible such scenarios and have centered on this view to now try to move  
 > forward to lock in on channel and product commitments for 2001.  
 >  
 > Attached are three files, the first is an excel file which outlines  
 > Product, Channel and Geographical revenue targets for GAAP and Cash. The  
 > second powerpoint file has some backup and trend charts and the third  
 > excel file has pricing assumptions.

'>  
> Jon Tingley's office will be scheduling a follow up meeting next week to  
> go into more detail on the attached. Any questions or clarification prior  
> to then, please don't hesitate to call me at 973 410 8513.  
>  
> Gary Breauninger  
>  
>  
> << File: Rev Ctr View - Outsource 4.xls >> << File: Outsourcing\$500M IRU  
> Adj.ppt >> << File: Price Summary.xls >>

**TOP TEN CUSTOMERS IRU SALES**  
*(\$ in millions)*

**I. Q1 2001**

| <b>Customer</b>    | <b>Cash Revenue</b> |
|--------------------|---------------------|
| 360Networks        | \$150.0             |
| Qwest              | 120.0               |
| Telecom Italia     | 70.0                |
| Centennial         | 30.0                |
| E-Bone (GTS)       | 29.0                |
| Emergia            | 23.0                |
| Crosswave          | 18.8                |
| Cable and Wireless | 16.2                |
| Cable and Wireless | 16.0                |
| Irish Gov          | 13.4                |
| <b>Total</b>       | <b>\$486.3</b>      |

|   |                |
|---|----------------|
| <b>Total Cash Revenue Q1</b>                        | <b>\$566.9</b> |
| <b>Top Ten Customers % of total Q1 cash revenue</b> | <b>85.8%</b>   |

**II. Q2 2001**

| <b>Customer</b>    | <b>Cash Revenue</b> |
|--------------------|---------------------|
| Telecom Italia     | \$170.0             |
| Qwest no. 1        | 73.0                |
| China Net com      | 45.0                |
| Epik               | 40.0                |
| Velocita           | 33.6                |
| FLAG Telecom no. 1 | 32.5                |
| Flag Telecom no. 2 | 32.5                |
| C&W plc            | 30.8                |
| Qwest no. 2        | 19.7                |
| Alcatel            | 17.1                |
| <b>Total</b>       | <b>\$494.3</b>      |

|   |                |
|---|----------------|
| <b>Total Cash Revenue Q2</b>                        | <b>\$567.2</b> |
| <b>Top Ten Customers % of total Q2 cash revenue</b> | <b>87.1%</b>   |

**CONFIDENTIAL**

**From:** Walsh, David  
**To:** Winnick, Gary; Cook, Lodwick  
**CC:** Davidson, Nancy; Maynes, Sheila  
**BCC:**  
**Subject:** Sales Brief - ENRON{F}  
**Date:** 9/4/2001 12:01:51 PM  


---

**Attachments:**  
Enron 3rd Q status.doc

---

The latest Enron update:

> -----  
> From: Rydzynski, Todd  
> Sent: Tuesday, September 04, 2001 8:13 AM  
> To: Walsh, David  
> Subject: FW: Sales Brief - ENRON  
>  
> <<Enron 3rd Q status.doc>>  
> as requested- brief Enron status  
> Todd  
>  
> -----Original Message-----  
> From: Rydzynski, Todd  
> Sent: Tuesday, September 04, 2001 8:11 AM  
> To: Joggerst, Patrick; Thompson, Paget; Gaffney, Timothy  
> Subject: RE: Sales Brief - ENRON  
>  
>  
> Paget:  
> attached-  
> pls call me with any questions on my mobile- 716-330-0783  
> Todd  
>  
> -----Original Message-----  
> From: Joggerst, Patrick  
> Sent: Wednesday, August 29, 2001 8:17 PM  
> To: Thompson, Paget; Rydzynski, Todd  
> Subject: FW: Sales Brief - ENRON  
>  
>  
> Todd - can you respond to David for me on this.  
> Thanks,  
> Patrick  
> -----  
> Sent from my BlackBerry Wireless Handheld (www.BlackBerry.net)



> -----Original Message-----  
> From: Walsh, David <David.Walsh@globalcrossing.com>  
> To: Joggerst, Patrick <PJoggerst@GlobalCrossing.com>  
> Sent: Wed Aug 29 17:09:59 2001  
> Subject: FW: Sales Brief - ENRON  
>  
> Patrick;  
>  
> Can you help me out here?  
>  
> David  
>  
> -----  
> From: Hasenstab, Jennifer  
> Sent: Wednesday, August 29, 2001 12:53 PM  
> To: Walsh, David  
> Subject: FW: Sales Brief - ENRON  
>  
> D -  
>  
> Gary/Lod want a brief on this to review on their flight here on Tuesday.  
>  
> J  
>  
> -----  
> From: Maynes, Sheila  
> Sent: Friday, August 24, 2001 2:54 PM  
> To: Hasenstab, Jennifer  
> Cc: Davidson, Nancy  
> Subject: Sales Brief - ENRON  
>  
>  
> As you know, Lod (and he is now being joined by Gary since Tom is  
> unavailable) is meeting in NY with Ken Lay at Pine Street on Wed Sept 5.  
> Lod would like to get a brief for review prior to the meeting - he said  
> that  
> David has been working on Enron.  
>  
> Thanks  
> Sheila  
> 8/24  
>  
> Sheila Maynes  
> Assistant to Lod Cook  
> Tel: (310) 385-5200 Dir. 385-5238  
> Fax: (310) 385-3700 Dir. 281-5389  
> email: smaynes@globalcrossing.com

**CONFIDENTIAL**

**From:** Fitzpatrick, Brian  
**To:** Walsh, David  
**CC:** Joggerst, Patrick  
**BCC:** Clayton, Joseph  
**Subject:** GAP Closing - 3rd Q IRU Deals  
**Date:** 9/6/2001 6:52:38 AM  
**Attachments:**

---

D. Walsh-

As of today (Sept. 6th) the high end of the working IRU sales number for the 3rd quarter will be \$100-\$125M. Given that we have a target of approximately \$725M, we obviously have a huge gap. After many discussions with the team we have identified the following deals that, if consummated could contribute to closing the \$600M gap.

No one on the team is suggesting that we enter into any of the following deals under normal operating conditions. Each of the deals require almost a 1:1 reciprocal purchase on our behalf. We will need to align upwards of \$500-600M in cash to execute the following. The first is what the respective carrier is interested in purchasing from GX followed by what they are requiring GX to purchase from them.

These deals are in addition to the \$100M being worked.

N. America: Deal Points Approx. Cash Value:

---

1. L3 EAC vs. US backbone \$400M
2. Qwest SAC vs. ? \$75-100M
3. Teleglobe EAC vs. ? \$30-50M
4. WorldCom EAC vs. Austr-Japan \$30-50M
5. FLAG PC-1 vs. ? \$50-80M
6. Florida Power ? vs. FL capacity \$25-50M

L. America:

---

1. Emergia Miami-Lon vs. 10G SAC \$25-50M
2. IMSAT Andean vs. ? \$25-35M

Asia:

---

1. CNC creative financing deal \$23M
2. NAVA sing-Austr. & Marine \$30M

Europe:

---

1. Cable & Wireless ? vs. J-US \$80-100M

I would like to have a discussion with you about our strategy for this quarter. I'm not sure what incremental value we will gain by doing any of these deals given our current Mkt. position?. These are all mostly bad deals that are going to eat into our cash position.

It is important for you to know that many members of our senior (carrier) team have approached me looking for guidance when it comes to these 'type' deals. They are very concerned that, (1) we have entered a stage that we might not be able to recover from, and (2) they will become labelled some how as the one that did 'that' deal. I know that we are operating in some of the hardest times of our careers but we need to make sure we do not destroy the team that got us here at the same time..... lets discuss.

In an effort to keep all of the resources focused on closing the identified \$600M gap I have instructed everyone to continue to work each of the deals defined above as if we are going to close them by 30/09/01.

Please give me a call to discuss.

Brian  
06.09.01  
+44 (0)207 904 1812 (Office)  
+44 (0)207 904 1804 (Zoe Forrest, PA)  
+44 (0)207 904 2722 (Fax)  
+44 (0)777 096 0345 (Mobile)

## CONFIDENTIAL

**From:** Joggerst, Patrick  
**To:** Yaremko, Robert; Delorimier, Jami; Wright, Robin  
**CC:**  
**BCC:**  
**Subject:** 3Q opportunity tracking -- For your eyes only  
**Date:** 9/10/2001 4:15:51 PM

---

**Attachments:**  
Q3 Updatel - Sept 10.xls

---

Robert,

Here is the revised version of the report prepared by Robin capturing scenarios on how we might be able to get the qtr done -- David thought the revised goal should be \$650M -- please check with Joe Perrone that this works for the corp. overall. Some of these opportunities we may not discuss in great detail, if at all, on the morning calls. BUT -- we need your input for revenue recog!

Thanks,  
Patrick

## CONFIDENTIAL

**From:** Walsh, David  
**To:** Perrone, Joseph P  
**CC:**  
**BCC:**  
**Subject:** C&W Status URGENT Q3 REVENUE{F}  
**Date:** 9/12/2000 11:05:43 AM  
**Attachments:**

---

Joe;

I need any help you can give me.

David

-----  
**From:** Bosch, Frits[SMTP:FBosch@GlobalCrossing.com]  
**Sent:** Tuesday, September 12, 2000 6:59 AM  
**To:** Arnold, Richard; Perrone, Joseph P  
**Cc:** Yaremko, Robert; Dougherty, Trish; Tim Granger; Walsh, David; Muir, Donald  
**Subject:** RE: C&W Status URGENT Q3 REVENUE

Joe ,

I know from Richard that the issue has your urgent attention . We need your guidance in moving forward. We have a lot at stake.

Frits  
> -----Original Message-----  
> **From:** Dougherty, Trish [mailto:Trish.Dougherty@global-crossing.co.uk]  
> **Sent:** Tuesday, September 12, 2000 12:14 PM  
> **To:** Granger, Tim; Bosch, Frits  
> **Cc:** Yaremko, Robert  
> **Subject:** C&W Status  
>  
> Tim / Frits  
>  
> Spoke briefly with Robert this morning to see if there was any news  
> regarding the Global Crossing policy regarding swap deals.  
>  
> I am doubtful that Arthur Andersson will remove any of the current 60 day  
> restrictions and therefore put the C&W deal in jeopardy.  
>  
> If we do not get any relief on the AA policies, then C&W must sign their  
> deal with us on or before 30 September - they do not need any cash.  
> Therefore, our deal would be signed 60 days later (4Q) and we would only

- > receive money for 4Q. If C&W cannot sign this deal by 30 Sept., then
- > there is no deal for EAC. That has been made quite clear from the
- > beginning as Global Crossing and not C&W has US accounting rules to abide
- > by. C&W offered to do whatever would help us to be able to close both
- > deals on or before 30 September. They offered to sign a letter of intent
- > with a downpayment, to backdate their contract for the purchase of S.
- > Cross capacity. Due to our accounting rules, none of these are allowed.
- >
- > I realize Asia Global Crossing is anxious to announce a deal with C&W for
- > their IPO this quarter, but unless we get relief from the accounting
- > policies, I do not know how to work around this issue. I will now assume
- > that GC also wants to see revenues (downpayment) from C&W this quarter,
- > but the structure of the deal will give us the revenue in 4Q and not 3Q.
- >
- >
- > Trish

**CONFIDENTIAL**

**From:** Cali, Jim  
**To:** Wright, Robin  
**CC:** Walsh, David  
**BCC:**  
**Subject:** Qtr End Deals{F}  
**Date:** 9/26/2001 2:08:36 PM  
**Attachments:**

---

Robin,

If we are moving ahead with these deals regardless of the product management input that's fine then I don't see why we are being asked what capacity we need in all these regions if the input is disregarded anyway. All they are doing is replying to inquiries we are receiving. It has been driven home we are going to be the group responsible for margin and revenue and it appears the individuals are just informing you of the "real" reality of what these deals mean to us at the end of the day. I have already spoken to Dave and know that we are moving ahead and will inform the team of that.

I am in office if you are around.

Jim  
 -----Original Message-----  
**From:** Wright, Robin  
**Sent:** Wednesday, September 26, 2001 1:56 PM  
**To:** Cali, Jim  
**Cc:** Joggerst, Patrick; Walsh, David  
**Subject:** RE: Qtr End Deals  
**Importance:** High

Jim, tried to track you down but your door is closed. You need to get on your team right away about this. They are inundating the sales team with their opinions about the deals and frankly, we are WAY too far down the road to let everyone weigh in on these. We have tried to include people all along and are now in the position where we have to leave it to sales to do the best deal possible. As far as we know, the decision has been made to figure out how to make our quarterly commitment and that we are not backing away from any deals on the table. If you or your team have different direction, this would be an excellent time to let us know. Otherwise we need to proceed and let the senior management team make the final call at the nightly reviews. I'm around to discuss. Let's you and I figure out how we get sales the information they need in a constructive and efficient way. Thanks for your help.

Robin

-----Original Message-----  
**From:** Thompson, Paget On Behalf Of Joggerst, Patrick  
**Sent:** Wednesday, September 26, 2001 1:07 PM  
**To:** Walsh, David; Wright, Robin; Cali, Jim

file://\COMMERCE\common\O&I\global crossing\Walsh\_insider...0000000003D2 342.htm 6/23/2001

Subject: FW: Qtr End Deals  
Importance: High

There are a string of emails that will effectively KILL the Qwest, Dishnet/Siva and Tycom deals ... here is my personal favorite.  
These deals represent ~\$450M of our attempt to get to \$675M in revenue. Someone needs to fix this -  
- I don't have time!!!!  
Patrick

-----Original Message-----  
From: Palma, Tony  
Sent: Wednesday, September 26, 2001 11:09 AM  
To: Morris, Charles  
Cc: Joggerst, Patrick; Cali, Jim; Alavanja, Peter T.  
Subject: Qtr End Deals  
Importance: High

Chuck, I spent an hour w/ Rich Mondello last night discussing GX network needs. I briefed Pete Alavanja this AM for business planning purposes. I asked him to work with you and Rick Ford, as well as Joey Wong. I can elaborate as needed, but here's the net summary.

Trans-Atl- capacity stock-out 4Q02. network groom or initial 80Gig 360 take-down extends stock-out to 4Q03. Current GX legal position is that we will receive 360 capacity. Network team believes we can mitigate risk by purchasing 4-6 protected waves, if we can pay \$4-\$5M per. Tyco previously quoted Rich \$5M per and indicated we could negotiate to <\$4M per. At \$7M, the business case and NPV is upside down. , Product Mgt and network view support 4-6 protected waves at <\$5M per (Joey/Pete modeling to ensure NPV neutral+).

Trans-Pac- capacity stock-out in 2005. We do not need additional capacity here. Network will model opportunities to see if they add value for forecast/capacity risk (ie mesh network creation).

There also appear to be some other smaller opportunities in LA (Maya...) to pursue. We will work with you to evaluate opportunities as they arise, but I wanted to share the discussions from last night. Network & GPM recognize the objective and challenge in meeting our 3Q cash target, but want to focus opportunities as appropriately as possible given requirements, capex,...

TP

-----Original Message-----  
From: Morris, Charles  
Sent: Wednesday, September 26, 2001 1:02 AM  
To: Ford, Richard (Rick); Wong, Joey (Wen Hai); Luczak, Robert M.  
Cc: Joggerst, Patrick; Delorimier, Jami; Mondello, Richard; Alavanja, Peter T.; Higase, Ted; Erickson, Scott  
Subject: Atlantic and Pacific Purchases  
Importance: High

Ok...here's the assumptions I would use in these business cases....

Purchases Summary (as of yesterday anyhow)

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Qwest - 4 linear 10 Gbps waves on Flag Atlantic (2 on each of 2 diverse routes) - This one may change.  
 Dishnet - 14 linear 10 Gbps waves on Tycom Atlantic (7 on each of 2 diverse routes)  
 Tycom - 44 linear 10 Gbps waves on Tycom Atlantic (22 on each of 2 diverse routes) all of which are portable to the Pacific for waves (maybe fiber)

**Qwest and Dishnet Business Case:**

Need to prove in the Qwest and Dishnet purchases on expected demand/revenues including our current and anticipated inventory for the Atlantic. You should have the demand and the current inventory and I think we need at least part of this for near term requirements for diversity. For future inventory, I'd assume we get the 360 Atlantic capacity conservatively by the end of 2002.

**Tycom Business Case:**

Need to prove in the Tycom purchase based on the Atlantic as above if possible. Otherwise, look at proving it in for the Pacific. If we have capacity there, we'll have to look at the value of the Mesh Network. Either use Lisa Dadouris data points, or Jami Delorimier has some info on cost reductions from the mesh network. Of course, I think that only helps us on the services side of the business, not the wholesale side, but product management can comment further.

I think that's the approach you should take, any other thoughts?

Chuck Morris  
 Director of Business Development  
 Global Crossing Development Company  
 973-410-8619 - Madison  
 212-658-8259 - New York City  
 cmorris@globalcrossing.com

**CONFIDENTIAL**

**From:** Joggerst, Patrick  
**To:** Walsh, David; Casey, Tom; Gorton, Jim  
**CC:**  
**BCC:**  
**Subject:** Jeopardy - Tycom deal  
**Date:** 9/26/2001 8:58:55 PM  
**Attachments:**

---

Just got off the phone with Brian Roussel = my counterpart at Tycom. They have had AA and PWC together all day and think that PWC will not give them the accting treatment they need - this is on the structure that Perrone suggested and their CFO agreed to : we are buying transatlantic waves under as a capital lease IRU, they are buying their GNO from us structured as an operating lease. Even THAT may not be allowed. The suggestion that Brian Roussel had was for Tycom to buy from GX, we can buy from Dishnet and Dishnet buys from Tycom - essentially putting Dishnet in the middle. This could work if Tycom agrees to a "quiet enjoyment" letter for us stating that is Siva doesn't pay or get financing, or anything, that they won't turn us off. We have a rather strongly worded letter that Tycom is already reviewing which we asked for as security for the DishNet deal.

I talked to Perrone abt this and he is willing to discuss it with the AA and PWC national partners in the morning to try to instill some sanity to the process. We are still proceeding with both deal separately for now.

Just when you thought it was ugly ...

Patrick

---

Sent from my BlackBerry Wireless Handheld (www.BlackBerry.net)

**CONFIDENTIAL**

**From:** Joggerst, Patrick  
**To:** Walsh, David; Wright, Robin  
**CC:**  
**BCC:**  
**Subject:** Qwest deal into Scandinavia{F}  
**Date:** 9/27/2001 6:53:37 AM  
**Attachments:**

---

I am not kidding - I can't work like this where everyone is now in the mode to cover their ass by documenting opinions.

Patrick

---

Sent from my BlackBerry Wireless Handheld (www.BlackBerry.net)

-----Original Message-----

From: Fitzpatrick, Brian <brian.fitzpatrick@GlobalCrossing.com>  
 To: Bosch, Frits <FBosch@GlobalCrossing.com>; Mercogliano, John <JMercogliano@GlobalCrossing.com>; Ferdinand, Christoph <CFerdinand@GlobalCrossing.com>; Joggerst, Patrick <PJoggerst@GlobalCrossing.com>; GRIVNER, CARL <carl\_grivner@globalcrossing.com>; Metcalf, Phil <Phil.Metcalf@GlobalCrossing.com>  
 Sent: Thu Sep 27 03:36:40 2001  
 Subject: Qwest deal into Scandinavia

To all:

I received a call this AM regarding the Qwest deal, specifically regarding our interest for swap capacity into Helsinki. I want to make sure we are all operating from the same place. We do NOT need any capacity into Scandinavia. We currently have invested \$80M+ into this region and have no customers. To tell ourselves we will take this capacity into inventory will add value to our efforts of yielding a return on the investments we have already made is not what we want to do.

If we determine that we need to execute a deal with Qwest for \$XXXM, then we should do it with our eyes wide-open, after we have had the chance to evaluate all of the pros & cons of the deal.

Do not mask a business plan to justify an ugly deal.

B. V. Fitzpatrick  
 +44 (0)207 904 1812 (UK Office)  
 +44 (0)777 096 0345 (Mobile)  
 +44 (0)207 904 2722 (Fax)  
 brian.fitzpatrick@globalcrossing.com

**PURCHASED ASSET SUMMARY**  
(February 22, 2002 View)

| STATUS                                     | CONTRACT<br>(\$ in M)              | CONTRACT<br>O&M |
|--|------------------------------------|-----------------|
| GC Asset:<br>Integration<br>Complete       | \$116.7<br>(\$107.8 spent to date) | \$1.0           |
| GC Asset:<br>Dispose of Asset              | \$522.0                            | \$6.9           |
| GC Spend: No<br>Asset to Dispose           | \$466.5<br>(\$235.5 spent to date) | \$1.5           |
| AGC Asset:<br>Integration<br>Complete      | \$63.7                             | \$2.0           |
| AGC Asset:<br>Integration Plans<br>Unknown | \$164.1                            | \$0.2           |

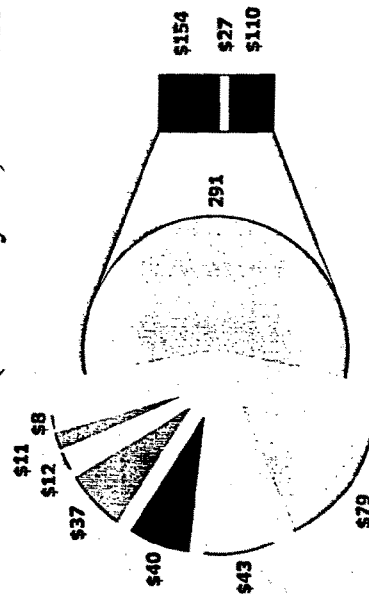
3/1/2002

Global Crossing Restricted

GX-HEC-06107

# Current View of Assets (February 22, 2002 View)

|          | Contract Cost |
|----------|---------------|
| Qwest    | \$291         |
| TI/MN    | \$79          |
| Flag     | \$43          |
| EPIK     | \$40          |
| Velocita | \$37          |
| C&W      | \$12          |
| TechTel  | \$11          |
| Equant   | \$7           |
| TNZ      | \$1           |
| Total    | \$522         |



|                                  |                                |                                   |                                   |                                    |
|----------------------------------|--------------------------------|-----------------------------------|-----------------------------------|------------------------------------|
| <input type="checkbox"/> TI/MN   | <input type="checkbox"/> FLAG  | <input type="checkbox"/> EPIK     | <input type="checkbox"/> Velocita | <input type="checkbox"/> C&W       |
| <input type="checkbox"/> TechTel | <input type="checkbox"/> Other | <input type="checkbox"/> Qwest NA | <input type="checkbox"/> Qwest TA | <input type="checkbox"/> Qwest Eur |

3/1/2002

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2

# GC SPEND – NO ASSET TO DISPOSE

| CARRIER      | CONTRACT<br>(\$ in M) | EXPLANATION   |
|--------------|-----------------------|---|
| 360 Networks | \$400.0               | 360 in Chapter 11; Assets not delivered; \$200M in GC prmts to date   |
| Ebone        | \$30.5                | Assets never turned over; deal being unwound                          |
| Pegasus      | \$26.0                | GC Looking to unwind deal; Could use approx. \$4M for local access    |
| Primus       | \$10.0                | Represents penalty owed by GC in Take or Pay deal (\$5M paid to date) |

## GC POTENTIAL SALES

| CARRIER                | CONTRACT<br>(\$ in M) | POTENTIAL<br>SALE (\$ in M) | % SALE TO<br>ORIGINAL COST |
|------------------------|-----------------------|-----------------------------|----------------------------|
| Qwest US Capacity      | \$154.5               | \$21.0                      | 14%                        |
| TI/Med Nautilus        | \$ 79.2               | \$20.0                      | 25%                        |
| FLAG Capacity          | \$43.4                | \$ 5.0                      | 12%                        |
| EPIK                   | \$40.0                | \$10.0                      | 25%                        |
| C&W MAYA               | \$12.5                | \$ 5.0                      | 40%                        |
| Equant MAYA            | \$ 7.4                | \$ 1.5                      | 21%                        |
| Total Pending<br>Sales | \$337.0               | \$62.5                      | 19%                        |

3/1/2002

Global Crossing Restricted

4

Thomas J. Casey  
Vice Chairman



GW -

Ken Lang left a voicemail saying he had sent spec. summary of fund, but he is willing to "think creatively" about how we could structure something that would be mutually beneficial.

He is in NY today (Wed) + could meet if you have time/interest in talking.

His numbers are:

mobile: 617 513 6771

office 617 760 7443

Tom

P.S. Bob is "not enthusiastic" about IXnet;  
he'd rather do Permus.



→ Mgmt Mtg 4/26/01  
TC, CG, LMC, DW, DC, JG, JClayton,  
GC

\* → Rehearsal Practice schedule for Wed. + Thurs.  
GET SCHEDULE Analyst Day.

- we have accomplished fair bit of network building ITC business to service business.
- primary provider of broadband service global enterprises
- will meet Wed. morning for practice session.

→ Walsh

- Quest
- Ctel
- Level 3
- Enron

have a zoom hole?

Can we get the big ones?

next step?

\* Add meeting on Quanta Strategic plans  
Late Thursday after Solutions mtg.

Room?

→ Joe Clayton GCNA  
Budget was 27M Detail  
10M Fin  
42M Career

Actual

on track

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GX-HEC-40176

1X Net Data Products ) Have to grow 80-90% solutions > 300% growth.

Only way to do this is large deals

? Not calling on one's + two's anymore.

We need a plan  $\begin{cases} \text{short term} \\ \text{long term} \end{cases}$

Tom \* Somebody has to figure out how to  
spid maximize progress in this market.  
longo?  
Timeley?

Guidance we give this week.

- reallocate from commercial to data
- softens guidance? No.
- we did not talk @ 1st Q., so it will range up through the year  
i.e. - SWIFT etc.

|                | <u>haircut</u> | <u>Budget</u> |
|----------------|----------------|---------------|
| IXNet          | 91%            | 117%          |
| Data           | 81%            | 124%          |
| Solutions      | 275M.          | 387M          |
| <u>Overall</u> | <u>35%</u>     | 61%           |
|                | Guidance?      |               |

~~David W.~~ have a substantial sales funnel for the year.

→ Jose Rios should be invited to meeting.

## IRU STATUS AS OF MARCH 16

|   | Q101<br>IRU   | Exec.<br>Owner | Status  |
|---|---------------|----------------|---|
| <b>Q1 NON-RECURRING REVENUES</b>        |               |                |   |
| I. Completed                            | 8.6           |                |   |
| II. Contractually Obligated Activations | 54.6          |                |   |
| RISKS:                                  |               |                |   |
| Cable & Wireless                        | 23.0          | Bosch/Mercog   | Looks positive for payment mtg Tuesday to confirm       |
| III. Other signed deals                 | 59.3          |                |   |
| RISKS:                                  |               |                |   |
| Sila Equant (CAC)                       | 6.8           | Bosch          | RISK: Provisioning issue Brazil - \$3.4M; no local loop |
| <b>IV. Primary Targets</b>              | <b>327.8</b>  |                |   |
| <b>PRIMARY TARGET BIG HITTERS</b>       |               |                |   |
| Comsat (GFS)                            | 6.8           | Altajir        | On track  |
| Comsat (SAC SS)                         | 12.5          | Altajir        | On track  |
| Comsat (EAC)                            | 34.0          | Jogensen       | Waiting board approval/looks positive                   |
| E-Bone (GTS) (AC-2/PEC)                 | 35.0          | Fitzpatrick    | On track  |
| Emergia (SAC)                           | 23.0          | Ajay           | On track  |
| EPIC (Egress-Int)                       | 15.0          | Placchetti     | RISK: Brazil to call CEO; Placchetti involved           |
| Irish Gov (PEC)                         | 12.2          | Bosch          | Looks good  |
| Netshore (Domestic capacity)            | 31.0          | Sprock         | Back on track   |
| Qwest (EAC, PD-17)                      | 98.2          | Wright         | On track  |
| STT (GNO deposit)                       | 10.5          | Rigazzi        | Looks good  |
| Telia (Dark Fibre)                      | 1.8           | Bosch          | Looks positive  |
| Telecom Italia (MAC Issue)              | 11.0          | Rigazzi        | On track  |
| Telecom Italia (SAC)                    | 7.2           | Mercogliano    | On track  |
| <b>Total Primary Big Hitters</b>        | <b>299.2</b>  |                |   |
| <b>V. Secondary Targets</b>             |               |                |   |
| <b>SECONDARY TARGET BIG HITTERS</b>     |               |                |   |
| Centennial (Deposit Super Mach)         | 10.0          | Altajir        | On track, board meeting 3/15                            |
| Doom (GNO deposit)                      | 4.0           | Rigazzi        | Long shot   |
| Enron (GNG)                             | 25.0          | Jogensen       | Long shot, will know more 3/20                          |
| Enron                                   | 100.0         | Barker         | Starting discussions, long shot                         |
| Level 3 (PEC)                           | 50.0          | Wright         | Long shot   |
| 360 Networks (EAC)                      | 100.0         | Sgro           | In discussions as backup, attorneys involved            |
| Telecom (CAC/PC-IAC-1/SAC) Split TBD    | 6.0           | Fitzpatrick    | Long shot, now in \$5M - \$20M range                    |
| <b>Total Secondary Big Hitters</b>      | <b>258.0</b>  |                |   |
| <b>TOTAL Q1 FORECAST</b>                | <b>442.5</b>  |                |   |
| <b>Q1 TARGET - (TBD)</b>                | <b>550.0</b>  |                |   |
| <b>VARIANCE TO Q1 TARGET</b>            | <b>-107.5</b> |                |   |
| <b>RISK TO COMPLETED/PRIMARY</b>        |               |                |   |
| EPIC                                    | 15            |                |   |
| Sila Equant SAC Circuit                 | 3.4           |                |   |
| <b>Total</b>                            | <b>18.4</b>   |                |   |
| <b>FORECAST WITH RISK</b>               | <b>430.9</b>  |                |   |
| <b>FILL GAP</b>                         |               |                |   |
| 360 Networks (EAC)                      | 180           |                |   |
| Centennial                              | 10            |                |   |
| <b>REVISED FORECAST</b>                 | <b>540.9</b>  |                |   |
| Foreign Exchange                        | -12           |                |   |
| O&M Upside                              | 3             |                |   |
| <b>TOTAL WITH ADJUSTMENTS</b>           | <b>531.9</b>  |                |   |

**Purchase Summary:**  
**\$100M** Qwest: Optical Entrance, Waves, DF on PEC to Prague, Vienna  
**\$7M** Comsat: Co-loc, infrastructure in SA  
**\$15M** EPIC: waves connecting cable stations in SA (RISK)  
**\$35M** Enron: 10 gig wave FA1, metro.co-to Europe  
**\$23M** Emergia: DF Spain, SA, carrier term, capacity  
**\$100-\$150M** 360: Atlantic capacity, capacity in Canada  
**\$3M** Centennial: \$10M commitment over 3 years, BI/telehouse PR/DR  
**\$287M-\$333M TOTAL**

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GLOBAL CROSSING PUBLIC HEARING

Presented by: LOUISE SLAUGHTER, Congresswoman

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Global Crossing Public Hearing, held at The Dugan  
Center, 15 St. Mary's Place, Rochester, New York on  
Saturday, March 9, 2002, commencing at 12 o'clock p.m.

APPEARANCES: RICHARD DOLLINGER, Senator  
SUSAN JOHN, Assemblywoman

REPORTED BY: JANET TADDEO, Official Court Reporter

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CONGRESSWOMAN SLAUGHTER: Good  
afternoon. Can you hear me all right?  
Hello. Is that better? I'm not sure this  
is working. Can you hear me?

THE AUDIENCE: Yes.

CONGRESSWOMAN SLAUGHTER: Good  
afternoon. My name is Louise Slaughter.  
I have the honor of being congresswoman  
for this district. I'm joined today by my  
good friend, Richard Dollinger, from the  
New York State Senate who was -- and I  
believe Assemblywoman Susan John will be  
joining us later. We are very happy to  
have all of you here today.

Before we start, I want to ask you  
if anyone here needs an interpreter, we  
have someone to do signing, but if we  
don't need her, we will not keep her here  
for a couple hours. Is there anybody who  
needs it? In that case, then we will  
thank you very much and thank you. We  
appreciate that.

Also, before you speak, we want to  
make sure that you give your name and your

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1  
2 (Whereupon the audience clapped.)

3 MS. CRUMPLER: I never have --  
4 this was a family-oriented business and  
5 they took care of us and what I want to  
6 say is that we know what President -- on  
7 9/11 when our country was brutally  
8 attacked, we were able to find the  
9 terrorists' money and we froze it and what  
10 I'm asking today is I want Congress, yes,  
11 do a Congressional hearing with Global  
12 Crossing. Find our money. Trail the  
13 money to us. Where is it? It is -- is it  
14 overseas? I don't care where it is. Find  
15 our money. Bring it back. If there is  
16 anything that we can prove it's that  
17 criminal things took place with Global  
18 Crossing, and I truly believe in my heart  
19 that it was. I think Gary Winnick is a  
20 pariah. I think pariah. Thank you very  
21 much.

22 MR. HERRMANN: My name is Mike  
23 Herrmann. I live at 878 Clover Street in  
24 Rochester. Just a couple points I want to  
25 make that was mentioned before. The

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2 401(k) -- I called Putnam shortly after I  
3 was laid off in November and Putnam  
4 informed me that I was still an active  
5 employee and when I called Global Crossing  
6 Human Resources, they took responsibility  
7 and said we had failed to notify Putnam of  
8 that so that was the liability on their  
9 part.

10 Another comment that I haven't  
11 heard anybody mention here is Tom Casey  
12 mentioned it, John Legere mentioned it,  
13 that we were always fully funded, that we  
14 were never to worry about anything because  
15 we were fully funded. We weren't like  
16 this company or that company. We were  
17 fully funded. The question would be, what  
18 did that mean and where is the  
19 responsibility in making statements such  
20 as that?

21 If you are looking for places to  
22 look, a couple that would certainly  
23 deserve looking at are the relationship  
24 with Exodus Communications. I was Product  
25 Development Manager for that and that was

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1 a relationship that was really bad from  
2 the get-go, never had a chance and Tom --  
3 excuse me, Tom Casey -- but Leo Hendry  
4 (phonetically) was the CEO of Global  
5 Crossing at the time, also was on the  
6 Board of Directors for Exodus  
7 Communication at the time, for him to  
8 allow a transaction that went through and  
9 quickly failed, he should have known.  
10 There should have been a responsibility  
11 sitting as a Board of Director member to  
12 know that those things go on.

14 The other was the sale of Frontier  
15 to Citizen's. There was an international  
16 memo which at the time I was not able to  
17 keep every memo that I had, but the issue,  
18 that statement that said there was a three  
19 plus billion dollar transaction, but  
20 Global Crossing was recognizing it as a  
21 hundred million dollar loss, so if you  
22 could bring people in and identify how did  
23 that hundred million dollar loss happen?  
24 That would be a red flag that would be a  
25 concern.

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2 My personal opinion now,--I came to  
3 Global Crossing, too, from a good  
4 business, was lured by activity there. I  
5 personally believe in hindsight now, the  
6 company never really had a chance in  
7 making it; the fundamentals of how you  
8 structure a business, putting together  
9 product developments.

10 I had responsibility of putting  
11 together the product development plan for  
12 the year 2001. It was a plan put together  
13 that had -- in no way did it have the  
14 resource of the company in line to deliver  
15 these things. We went through a number of  
16 layoffs with even fewer resources and  
17 continued telling the market that we were  
18 going to continue to deliver these  
19 functions and we had no chance whatsoever  
20 to deliver those things.

21 There is also a case of I believe I  
22 have been told that there was pre-IPO  
23 acquisition of stock of some of Global  
24 Crossing vendors. Zonus Corporation, in  
25 particular, extended pre-IPO stock to some

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1  
2 Global Crossing executives and members in  
3 decision-making -- makers in selecting  
4 vendors. If you're running a fundamental  
5 business, you don't select a vendor by  
6 owning part of that vendor. While it's  
7 not illegal, it certainly is conflict of  
8 interest.

9 The last is just in the sense of  
10 when I got laid off, it gave me some time  
11 to do some reading and I did a lot of  
12 reading of Steven Ambrose's book talking  
13 about World War II. Some of that really  
14 built the country where we are today and I  
15 thought of Tom Brokaw's book called "The  
16 Greatest Generation." I think in dealing  
17 with Mr. Winnick and various CEOs, we  
18 have, I think, we really created a new  
19 chapter of the book, really to highlight  
20 the weakest generation we have seen in the  
21 world. That is very disheartening to have  
22 to explain to my eight-year-old son why  
23 I'm home all the time. While it's fun for  
24 him and it's great to be around, but how  
25 did this happen? I mean, I look back in

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2 my history. I worked for Global Crossing,  
3 that failed. I worked for Arthur  
4 Andersen. I used to be part of that.  
5 Before that I worked for a bank in Erie  
6 County that was -- went insolvent. So  
7 being 40 years old, that's a pretty tough  
8 record to explain to the child why  
9 business is where you want to go. But on  
10 the same token, I want to say, if you view  
11 the big picture, I think the opportunity  
12 to be able to have this and talk about  
13 this, I think is great testimony to our  
14 country, that we can have these open  
15 discussions that in the long-term, while  
16 we can't necessarily legislate all these  
17 things, I think it's great to have the  
18 forum, the freedom of the press and  
19 Congress and Senators and State Assembly  
20 to be able to talk. Thank you.

21 CONGRESSWOMAN SLAUGHTER: Let me  
22 ask you, you said -- I wonder about  
23 product development. If I understood you  
24 correctly, you said that you were making  
25 promises of product that you knew you

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would never deliver; is that correct?

MR. HERRMANN: Yes.

CONGRESSWOMAN SLAUGHTER: Were any of those made to the government on getting government contracts?

MS. RAGLAND: Just because my last position was Product Manager and in the product development between -- for Banwit Service and we were putting together product that you couldn't connect to anything else in -- so there were a lot of holes on what we were to develop and we were asked to target what you are going to sell, define it and they didn't want to hear anything beyond that. Make your 1/15 date.

CONGRESSWOMAN SLAUGHTER: Whether it was possible?

MR. HERRMANN: Global Crossing put a -- for service level agreement, Global Crossing put in to say that our network would perform at this certain capacity and it is my understanding that the network never had a chance to perform in that

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1  
2 capacity, but the push was to make the  
3 deal to sell the contract. We would write  
4 whatever was required.

5 MS. COLLINS: One thing you might  
6 want to take a look at is that project  
7 teams were required to do their own  
8 internal operations, audit prior to, I  
9 don't know if it had been prior to selling  
10 the product, but you might want to take a  
11 look at the internal operation audit of  
12 some of these projects and what those  
13 internal audits said about those products  
14 as opposed to other statements that may  
15 have been made about those products.

16 CONGRESSWOMAN SLAUGHTER: Now,  
17 basically what you are telling me, the  
18 internal audit said this is not going to  
19 work?

20 MS. RAGLAND: There were holes.  
21 There were missing pieces to the product.

22 CONGRESSWOMAN SLAUGHTER: That  
23 really caught my attention there. Thank  
24 you. I appreciate you very much for  
25 coming.

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January 8, 2001, Monday

**DISTRIBUTION:** Business Editors

**LENGTH:** 1391 words

**HEADLINE:** Global Crossing Projects Continued Strong Growth for 2001

**DATELINE:** Jan. 8, 2001

**BODY:**

- Cash Revenue of approximately \$7.1 - \$7.2 billion
- Adjusted EBITDA of approximately \$2.0 - \$2.1 billion
- Initiation of new services on new systems significantly diversifies revenue base

**Global Crossing Ltd.** (NYSE:GX), which provides integrated telecommunications solutions over the world's most extensive global IP-based fiber optic network, today projected strong financial performance for the fiscal year ending December 31, 2001.

**Global Crossing** expects its continuing operations, consisting of its Telecommunications Services and Installation and Maintenance Services segments, to generate approximately \$7.1 to \$7.2 billion of Cash Revenue, and approximately \$2.0 to \$2.1 billion of Adjusted EBITDA in 2001.

The Company's continuing operations exclude its incumbent local exchange carrier (ILEC) business, which the Company has agreed to sell to Citizens Communications for an estimated \$3.65 billion in cash. The 2001 projections also exclude any impact from its GlobalCenter web hosting business, which the Company has agreed to sell to Exodus Communications in a transaction that is expected to be completed in early January. The Company projects that it will maintain its previously announced plans to make capital expenditures of approximately \$10 billion in the aggregate for 2000-2001. Capital spending for continuing operations is expected to be approximately \$4.5 to \$4.7 billion in 2001, an amount that includes approximately \$0.7 billion of previously announced capital spending from the 2000 capital program for which payments will be made in 2001. The company estimates that its current business plan is fully financed.

Tom Casey, Chief Executive Officer of **Global Crossing** said, "We expect 2001 results to represent strong growth in Cash Revenue and Adjusted EBITDA and position us to achieve the long-term growth objectives we have previously stated: 30% annual growth in Cash Revenue and 35%-40% annual growth in Adjusted EBITDA."

"In 2001, we expect to see continuing triple-digit growth in sales from our key data-service products, and continued strong growth in sales from our wholesale non-IRU business, as we take advantage of our network capacity and our new voice-over-IP technology to provide service to other carriers. Sales of capacity in the form of IRUs should remain a strong cash generator, but we are relying on projected

growth in IRU sales of less than 25% in order to meet our projections."

Mr. Casey continued, "We anticipate that 2001 performance will benefit from the initiation of commercial service on several new systems and in several new regions. Specifically, our Pan European network will be completed in the second quarter of 2001; East Asia Crossing will begin service to Hong Kong in the first quarter of 2001; and the western ring of South America Crossing will be put into service in the second quarter of 2001. We are already selling capacity on each of these systems and we project new revenue sources throughout the Asian, Pacific, North American, South American and European regions in 2001. In addition, the data and IP services tailored to be attractive to the global enterprise market are now being rolled out and, as a result, for the first time we will be generating revenue from these services in these new markets in 2001. This product and geographic diversity reduces our dependence on any particular product or market. For example, the trans-Atlantic capacity market, which was our only source of revenue just 18 months ago, should account for less than a few percentage points of our Cash Revenue in 2001."

#### BUSINESS SEGMENT DISCUSSION

**Global Crossing's** Telecommunications Services segment is comprised of commercial, consumer and carrier businesses for bandwidth, data, voice, audio/video conferencing and other value-added services. Revenue from commercial services is expected to be driven in large part by continued growth approximating 100% annually in data-services such as Frame Relay, ATM, IP and private line, joined in 2001 by data-services to financial institutions. Managed outsourcing of voice and data networks through **Global Crossing Solutions** is also expected to be a significant new source of revenue. The projected growth in both data-services and managed outsourcing contracts is expected to more than offset the projected decline in voice service revenues, leading to growth in commercial revenues at far greater than historic rates.

Growth in Cash Revenue from carrier services is expected to be consistent with that of recent periods, with both voice and data-services product revenues projected to grow rapidly. Data-service products sold to carriers are projected to exceed 100% annualized growth, with wholesale voice revenues expected to grow at about half that rate. **Global Crossing** believes that current trends in retail voice offerings and capital market constraints on the introduction of new capacity will lead to increased demand for wholesale services, which the Company's newly completed network should be well-positioned to provide.

The consumer long distance segment, which currently generates only approximately 3% of Cash Revenue, is expected to continue its decline as a result of the Company's decision not to market retail consumer voice service or stand alone voice service (i.e., voice service not bundled with data-services) to commercial customers.

Revenue from **Global Crossing's** Installation and Maintenance business segment, consisting of the Company's Global Marine subsidiary, is projected to continue to grow at a rate consistent with its recent performance. Increased demand for maintenance services and continued demand for worldwide installation services drive the forecasted results.

#### Definition of Terms Used

In this press release, Revenue refers to revenue reported on the Company's statements of operations under Generally Accepted Accounting Principles. Cash Revenue refers to Revenue plus the cash portion of the change in deferred revenue. Adjusted EBITDA refers to operating income (loss) plus goodwill and intangibles amortization, depreciation and amortization, non-cash cost of capacity sold, stock related



expense and the cash portion of the change in deferred revenue, which definition is consistent with the financial covenants contained in the Company's major financing agreements.

**About Global Crossing**

**Global Crossing** Ltd. provides integrated telecommunications solutions over the world's most extensive global IP-based fiber optic network, which will have more than 100,000 route miles, reaching five continents, 27 countries and more than 200 major cities by mid-2001. **Global Crossing** serves many of the world's largest corporations, providing a full range of managed data and voice products and services. **Global Crossing** operates throughout the Americas, Europe, and Pacific region, and provides services in Asia through its subsidiary, Asia **Global Crossing**. For more information, please visit [www.globalcrossing.com](http://www.globalcrossing.com) or [www.asiaglobalcrossing.com](http://www.asiaglobalcrossing.com).

Statements made in this press release that state the Company's or management's intentions, beliefs, expectations, or predictions for the future are forward-looking statements. Such forward-looking statements are subject to a number of risks, assumptions and uncertainties that could cause the Company's actual results to differ materially from those projected in such forward-looking statements. These risks, assumptions and uncertainties include: the ability to complete systems within currently estimated time frames and budgets; the ability to compete effectively in a rapidly evolving and price competitive marketplace; changes in the nature of telecommunications regulation in the United States and other countries; changes in business strategy; the successful integration of newly-acquired businesses; the impact of technological change; and other risks referenced from time to time in the Company's filings with the Securities and Exchange Commission. CONTACT: **Global Crossing** Ltd.

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LOAD-DATE: January 9, 2001

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June 21, 2001, Thursday

**DISTRIBUTION:** Business Editors

**LENGTH:** 833 words

**HEADLINE:** Global Crossing Completes Core Worldwide Network

**DATELINE:** HAMILTON, Bermuda, June 21, 2001

**BODY:**

**Global Crossing Ltd. (NYSE: GX):**

- Core Network Spans 200+ Cities In Europe, North America, South America and Asia
- Unique Network is One of Most Extensive Global Infrastructure Projects Ever Completed
- Global Crossing's Business Plan is 100% Funded

**Global Crossing Ltd. (NYSE: GX)**, which provides integrated telecommunications solutions over the world's most extensive global IP-based fiber optic network, today announced it has completed its core network linking 27 countries and over 200 major cities in Europe, North America, South America and Asia. The final connection was between Lima, Peru and South American Crossing, which is already operational in major markets throughout the region, including Mexico, Argentina, Brazil, Chile, Venezuela and Panama. "This is one of the most extensive infrastructure projects ever completed, and we have done it in less than four years. Amid difficult market conditions, **Global Crossing** has built a unique network on budget and on time -- and we can now provide seamless end-to-end connections to both carriers and commercial customers from Europe to North and South America to Asia," said CEO Tom Casey. "We are particularly proud of achieving this milestone at a time when many competitors have had to cut back their network builds due to capital constraints. In today's environment, nobody else will be able to build a network of this scope for years to come."

Casey continued, "**Global Crossing's** business plan is fully funded, including receipt of over \$3 billion in after-tax proceeds from the ILEC sale closing on June 29. In addition, we have already recouped more than half of our construction costs through existing sales contracts. Our network -- which we designed, built and operate as one seamless system to be the best-performing, most secure and lowest-cost network in the world -- enables us to offer managed broadband services on a global basis to leading enterprises. We are focused on exploiting our first-mover advantage to generate revenues from this unique asset while providing a level of service not available anywhere else."

Current customers include carriers such as Deutsche Telekom, British Telecom, Telecom Italia and Qwest; institutions such as SWIFT, the British Government and the U.S. Navy; and corporations such as JP Morgan Chase, Goldman Sachs, Procter & Gamble, Merck, Sony, Pfizer, Microsoft, NEC, American Express, Yahoo! BB, CNBC Europe, Fujitsu and Direct TV.

Beyond its core network, **Global Crossing** is currently building a previously announced Asian extension that will connect Singapore, Malaysia and the Philippines to the global network. This fully funded extension is expected to be complete in the first quarter of next year. **Global Crossing** is also extending fiber directly into customer premises in many major markets.

#### About **Global Crossing**

**Global Crossing** Ltd. (NYSE: GX) provides telecommunications solutions over the world's first integrated global IP-based network, which will have approximately 100,000 route miles, reaching 27 countries and more than 200 major cities. **Global Crossing** serves many of the world's largest corporations, providing a full range of managed data and voice products and services. **Global Crossing** operates throughout the Americas, Europe, and the Asia/Pacific region, and provides services in Asia through its subsidiary, Asia **Global Crossing** (Nasdaq: AGCX). **Global Crossing** Solutions provides integrated telecommunications solutions, including network outsourcing, to large global enterprises. Please visit [www.globalcrossing.com](http://www.globalcrossing.com) or [www.asiaglobalcrossing.com](http://www.asiaglobalcrossing.com) for more information.

Statements made in this press release that state the Company's or management's intentions, beliefs, expectations, or predictions for the future are forward-looking statements. Such forward-looking statements are subject to a number of risks, assumptions and uncertainties that could cause the Company's actual results to differ materially from those projected in such forward-looking statements. These risks, assumptions and uncertainties include: the ability to complete systems within currently estimated time frames and budgets; the ability to compete effectively in a rapidly evolving and price competitive marketplace; possible reductions in demand for our products and services due to competition or changes in industry conditions; changes in the nature of telecommunications regulation in the United States and other countries; changes in business strategy; the successful integration of newly-acquired businesses; the impact of technological change; and other risks referenced from time to time in the Company's filings with the Securities and Exchange Commission. CONTACT: **Global Crossing** Ltd. Analysts / Investors Contact  
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LOAD-DATE: June 22, 2001



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May 9, 2001, Wednesday

**DISTRIBUTION:** Business Editors

**LENGTH:** 4930 words

**HEADLINE:** Global Crossing's Pro Forma Recurring Adjusted EBITDA up 43% and Pro Forma Cash Revenue up 39% from First Quarter of 2000

**DATELINE:** HAMILTON, Bermuda, May 9, 2001

**BODY:**

**Global Crossing Ltd.** (NYSE:GX):

-- Commercial Service Revenue increased 7% sequentially with Commercial Data Services up 12% sequentially.

-- Telecommunications Service Revenue increased 6% sequentially with total Data Services up 16% sequentially.

-- Cash Revenue from Data Services increased 59% from first quarter 2000; represents 63% of Telecommunications Services Cash Revenue, up from 52% one year ago, Pro Forma for acquisitions and dispositions.

-- New York Public Service Commission and FCC approved the Company's incumbent local exchange carrier sale to Citizens Communications for \$3.5 billion cash, with closing accelerated to June 2001. -- The **Global Crossing** Network, nearly 90% complete, became the first network to implement Multi Protocol Label Switching as a backbone transport technology on a global basis, enabling **Global Crossing** to offer the most robust VPNs worldwide.

**Global Crossing Ltd.** (NYSE:GX), which provides integrated telecommunications solutions over the world's most extensive global IP-based fiber optic network, today reported results for the quarter ended March 31, 2001. For its continuing operations, the Company reported first quarter Cash Revenue of \$1,613 million, Recurring Adjusted EBITDA of \$441 million, and a Recurring Net Loss of \$608 million, or \$0.69 per share.

Tom Casey, Chief Executive Officer of **Global Crossing**, said, "We are extremely pleased with our strong first quarter results, which reflect our continuing transformation from a carrier's carrier to a value-added telecommunication services provider. We continue to leverage the competitive advantages of our global network and increasingly strong sales team to expand and diversify our revenue streams. Our commercial services segment performed particularly well, with sequential growth of 12% in commercial data services."

SUMMARY OF QUARTERLY PRO FORMA RESULTS

Results for Continuing Operations exclude **Global Crossing's** ILEC business, which the Company has agreed to sell to Citizens Communications for an estimated \$3.5 billion in cash, with closing anticipated in June of this year; and GlobalCenter, whose sale to Exodus Communications was completed on January 10, 2001 for 108.2 million shares of Exodus common stock.

Unless otherwise noted, period-to-period comparisons for Continuing Operations throughout this press release are discussed giving Pro Forma effect to all acquisitions and dispositions as if each had occurred on January 1, 2000. Detailed Pro Forma comparisons are shown in the attached schedules.  
Summary of Quarterly Pro Forma Operations:

|                                     | Three Months Ended                               |  | Change |         |
|-------------------------------------|--|--|--------|---------|
|                                     | March 31<br>2001<br>(Unaudited)<br>(in millions) | March 31<br>2000<br>(Unaudited)<br>(in millions) | Amount | Percent |
| Pro Forma Continuing Operations (1) |  |  |        |         |
| Cash Revenue                        | \$1,613  | \$ 1,160   | \$ 453 | 39%     |
| Recurring Adjusted EBITDA           | \$ 441   | \$ 307   | \$ 134 | 43%     |

(1) The Pro Forma amounts in the table above reflect, for both periods presented, the Company's formation of Hutchison **Global Crossing**, the acquisition of IPC/IXnet and the dispositions of both its ILEC business and GlobalCenter, as if each had occurred on January 1, 2000.

#### Telecommunications Services Segment

During the quarter, the Company expanded its strong presence with customers in the Carrier and Financial Markets sectors, signing new contracts with customers such as Lockheed Martin Global Telecommunications, U.S. Cellular, JP Morgan Chase & Co., Enron and the Chicago Stock Exchange. New service contracts were also signed with a number of multinational corporations including Hoffman-La Roche, Skadden-Arps, and Ticketmaster.

**Global Crossing** also announced a service and solutions offering that will enable the media and entertainment industry to communicate and collaborate over the **Global Crossing** network. In conjunction with this effort, the Company announced a strategic partnership under which Constellation Ventures will allocate \$100 million towards the development of applications by emerging software and service-based companies for the media and entertainment industry. In addition, the Company announced co-marketing agreements with BBC Technology and VDI Multimedia to jointly market an extensive suite of solutions that will streamline processes and introduce next generation broadband services to this industry. In partnership, the companies intend to offer potential customers the bandwidth and services necessary to seamlessly create, collaborate and connect in a fully secure, digital environment.

The Telecommunications Services segment, which is comprised of commercial, consumer and carrier businesses for bandwidth, data, voice, audio/video conferencing and other value-added services, recorded Cash Revenue growth of 30% and Adjusted EBITDA growth of 45%, from the first quarter 2000. Total Service Revenue for the segment, which excludes the effect of the sale of capacity as IRU's, increased 13% from the first quarter of 2000, and 6% sequentially, to \$851 million. The accelerating growth in Telecommunications Service Revenue reflects the Company's increased focus on services and

enterprise customers.

For all data services, Cash Revenue was up 59% from first quarter 2000, now accounting for 63% of Telecommunications Services Cash Revenue, up from 52% in the first quarter of 2000. Service Revenue from all data services increased 44% from the first quarter of 2000 and 16% sequentially.

Within Telecommunications Services, the Commercial sector recorded solid sequential revenue growth. Total revenue from voice and data services increased by 7% over fourth quarter 2000 results, with Commercial Data Revenue (including IP, Frame Relay, ATM and private line) increasing 12% sequentially.

For the Carrier segment, Cash Revenue was \$956 million in the first quarter of 2001, an increase of 46% over first quarter 2000. Within the Carrier segment, Data Service Revenue (including IP, Frame Relay, ATM and private line) experienced healthy growth, increasing 88% over the first quarter of 2000 and 23% sequentially. Cash Revenue from the sale of capacity in the form of IRU's was \$567 million for the quarter, an increase of 69% from the first quarter of 2000, and a slight decline from the fourth quarter of 2000. Included in this amount, and in Adjusted EBITDA, was \$375 million received from significant carrier customers who signed contracts during the quarter to purchase \$500 million of capacity on the **Global Crossing** Network, and to whom **Global Crossing** made substantial capital commitments during the quarter (see "Network and Capital Plan" below).

#### Installation and Maintenance Services Segment

The Company's installation and maintenance business segment, consisting of its Global Marine subsidiary, reported revenue of \$209 million for the first quarter of 2001, as compared to \$161 million in the fourth quarter of 2000. During the quarter, the Company experienced an increase in revenue due to installation projects in the Far East on APCN-2 and on other cable projects including East Asia Crossing.

#### Discontinued Operations - Incumbent Local Exchange Carrier & GlobalCenter

The Company's discontinued operations, consisting of its ILEC and GlobalCenter segments, reported revenue of \$191 million for the first quarter of 2001, with Recurring Adjusted EBITDA of \$98 million.

#### NETWORK AND CAPITAL PLAN

**Global Crossing's** core network is now operational over 88% of its planned route miles. The planned length of the network is approximately 100,000 route miles, reaching 27 countries and more than 200 major cities. The Company recently announced the first implementation of Multi Protocol Label Switching (MPLS) traffic engineering as a backbone transport technology on a global basis. By enabling IP packets of data to be expressly routed directly to their final destination, in contrast to conventional ("best efforts") indirect routing methods, MPLS provides improved traffic engineering, faster fail-over times, a more scalable network architecture and, ultimately, more advanced network services. The deployment of MPLS technology over physical mesh architecture is anticipated to enable **Global Crossing** to offer the most robust end to end VPNs worldwide.

**Global Crossing** also recently added six voice over IP (VOIP) gateway centers in Europe, enabling the company to carry voice as IP traffic to the United States. Core VOIP gateway centers are located in Amsterdam, Brussels, Copenhagen, Frankfurt, London, Paris and Tokyo, plus 15 additional tier-one markets in the United States. The VOIP platform is carrier class in scale and quality, is currently carrying voice traffic, and is expected to have a capacity of more than 2 billion minutes per month by the end of

2001. The VOIP platform reduces costs and serves as an enabling technology for converged voice, data and video services over a single connection, allowing customers to operate more efficiently.

During the quarter, the Company entered into a multi-year agreement to provide Centennial Communications with \$150 million of fiber optic undersea capacity, to be provided over the existing Mid-Atlantic Crossing system, as well as over acquired or constructed new capacity, connecting key Caribbean markets to Miami. If constructed, the new system would have more capacity than required for the Centennial contract.

During the quarter, the Company also entered into several agreements with various carrier customers for the purchase of capacity and co-location space. These transactions were implemented in order to acquire cost-effective local network expansions; to provide for cost-effective alternatives to new construction in certain markets in which the Company anticipates shortages of capacity; and to provide additional levels of physical diversity in the network as the Company implements its global mesh architecture. The new capital commitments totaled an estimated \$625 million, including the cost of the possible construction of the Caribbean system on which Centennial would be the anchor customer.

Notwithstanding the capital commitments described above, the Company reaffirmed its previously announced plans for capital expenditures of approximately \$10 billion in the aggregate for 2000-2001. The Company projects that these commitments will be offset by a combination of network efficiencies, use of existing inventories, lower-than-planned prices from vendors, and spending at slower than budgeted rates. Capital spending for continuing operations during 2001 (including spending by Asia **Global Crossing**) is expected to remain approximately \$4.9 to \$5.1 billion, an amount that includes approximately \$1 billion of previously announced capital spending from the 2000 capital program for which payments will be made in 2001.

On April 25, 2001 the New York Public Service Commission approved the sale of **Global Crossing's** incumbent local exchange carrier business to Citizens Communications. This followed approval by the Federal Communications Commission (FCC) on April 17, 2001. All remaining regulatory approvals are expected in May of 2001, with closing expected in June of this year. The cash consideration for the sale has been adjusted to \$3.5 billion to reflect changes in certain terms of the transaction, including an agreement for expedited closing.

#### DEFINITION OF TERMS USED

Throughout this press release, Pro Forma results have been discussed, which give effect to the formation of Hutchison **Global Crossing**, the acquisition of IPC/LXnet and the dispositions of both its ILEC business and GlobalCenter, as if each had occurred on January 1, 2000.

In this press release, Revenue refers to revenue reported on the Company's statements of operations under Generally Accepted Accounting Principles. Cash Revenue refers to Revenue plus the cash portion of the change in deferred revenue. Service Revenue excludes all impacts of IRU sales, and refers to Revenue less any revenue recognized immediately for circuit activations that qualified as sales type leases; less the revenue recognized due to the amortization of IRU's sold in prior periods and not recognized as sales-type leases. Adjusted EBITDA refers to operating income (loss) plus goodwill and intangibles amortization, depreciation and amortization, non-cash cost of capacity sold, stock related expense and the cash portion of the change in deferred revenue, which definition is consistent with the financial covenants contained in the Company's major financing agreements. Recurring Adjusted EBITDA refers to Adjusted EBITDA plus one-time merger and integration expenses and other non-recurring expenses. For all periods presented, net income generated by the ILEC and GlobalCenter businesses is reported as "Income from discontinued operations, net of taxes" on the accompanying

## Condensed Consolidated Statements of Operations.

## ABOUT GLOBAL CROSSING

**Global Crossing** Ltd. (NYSE: GX) provides telecommunications solutions over the world's first integrated global IP-based network, which will have approximately 100,000 route miles, reaching 27 countries and more than 200 major cities. **Global Crossing** serves many of the world's largest corporations, providing a full range of managed data and voice products and services. **Global Crossing** operates throughout the Americas, Europe, and the Asia/Pacific region, and provides services in Asia through its subsidiary, Asia **Global Crossing** (Nasdaq: AGCX). **Global Crossing** Solutions provides integrated telecommunications solutions, including network outsourcing, to large global enterprises. Please visit [www.globalcrossing.com](http://www.globalcrossing.com) or [www.asiaglobalcrossing.com](http://www.asiaglobalcrossing.com) for more information.

Statements made in this press release that state the Company's or management's intentions, beliefs, expectations, or predictions for the future are forward-looking statements. Such forward-looking statements are subject to a number of risks, assumptions and uncertainties that could cause the Company's actual results to differ materially from those projected in such forward-looking statements. These risks, assumptions and uncertainties include: the ability to complete systems within currently estimated time frames and budgets; the ability to compete effectively in a rapidly evolving and price competitive marketplace; changes in the nature of telecommunications regulation in the United States and other countries; changes in business strategy; the successful integration of newly-acquired businesses; the impact of technological change; and other risks referenced from time to time in the Company's filings with the Securities and Exchange Commission.

**GLOBAL CROSSING LTD. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**

(in thousands, except share and per share amounts)

|                                       | (Unaudited)<br>Three Months<br>Ended |                   | (Unaudited)<br>Pro forma<br>Three Months Ended |                   |  |
|---------------------------------------|--------------------------------------|-------------------|--|-------------------|--|
|                                       | March 31,<br>2001                    | March 31,<br>2000 | March 31,<br>2001                              | March 31,<br>2000 |  |
| REVENUES                              | \$1,081,661                          | \$906,569         | \$1,081,661                                    | \$994,309         |  |
| OPERATING EXPENSES:                   |                                      |                   |  |                   |  |
| Cost of access and maintenance        | 532,665                              | 430,152           | 532,665  | 455,506           |  |
| Other operating expenses              | 649,646                              | 361,283           | 649,646  | 452,734           |  |
| Depreciation and amortization         | 412,609                              | 278,792           | 412,609  | 393,399           |  |
| Total operating expenses              | 1,594,920                            | 1,070,227         | 1,594,920                                      | 1,301,639         |  |
| OPERATING LOSS                        | (513,259)                            | (163,658)         | (513,259)                                      | (307,330)         |  |
| Other income (expense):               |                                      |                   |  |                   |  |
| Equity in (loss) income of affiliates | (11,035)                             | (5,629)           | (11,035)                                       | (19,584)          |  |
| Minority interest                     | 40,573                               | (15,731)          | 40,573   | (10,782)          |  |
| Interest income                       | 26,951                               | 15,050            | 26,951   | 15,329            |  |
| Interest expense                      | (142,112)                            | (83,993)          | (142,112)                                      | (105,465)         |  |
| Other income                          |                                      |                   |  |                   |  |



|  |             |             |             |             |
|--|-------------|-------------|-------------|-------------|
| (expense), net   | (8,762)     | (4,863)     | (8,762)     | (5,890)     |
| (LOSS) INCOME FROM CONTINUING OPERATIONS<br>BEFORE INCOME TAXES, EXTRAORDINARY ITEMS<br>AND CUMULATIVE EFFECT OF CHANGE IN<br>ACCOUNTING | (607,644)   | (258,824)   | (607,644)   | (433,722)   |
| Benefit (provision) from<br>income taxes   | 45,773      | 7,018       | 45,773      | 10,007      |
| (LOSS) INCOME BEFORE EXTRAORDINARY<br>ITEMS AND CUMULATIVE EFFECT OF<br>CHANGE IN ACCOUNTING   | (561,871)   | (251,806)   | (561,871)   | (423,715)   |
| (Loss) income from discontinued<br>operations, net(1)  | (54,003)    | (51,013)    | (54,003)    | (51,013)    |
| Extraordinary loss on<br>retirement of debt, net   | -           | -           | -           | -           |
| Cumulative effect of change<br>in accounting<br>principle, net   | -           | -           | -           | -           |
| NET LOSS   | (615,874)   | (302,819)   | (615,874)   | (474,728)   |
| Preferred stock dividends  | (59,492)    | (45,258)    | (59,492)    | (64,664)    |
| Conversion of preferred<br>stock into common stock   | -           | -           | -           | -           |
| NET LOSS APPLICABLE TO<br>COMMON SHAREHOLDERS  | \$(675,366) | \$(348,077) | \$(675,366) | \$(539,392) |
| NET LOSS PER COMMON SHARE:   |             |             |             |             |
| Loss from continuing operations<br>applicable to common shareholders   |             |             |             |             |
| Basic and diluted  | \$(0.70)    | \$(0.38)    | \$(0.70)    | \$(0.58)    |
| Loss from discontinued<br>operations, net  |             |             |             |             |
| Basic and diluted  | (0.06)      | (0.07)      | (0.06)      | (0.06)      |
| Extraordinary loss on<br>retirement of debt, net   |             |             |             |             |
| Basic and diluted  | -           | -           | -           | -           |
| Cumulative effect of change<br>in accounting principle, net  |             |             |             |             |
| Basic and diluted  | -           | -           | -           | -           |
| Net loss applicable to<br>common shareholders  |             |             |             |             |
| Basic and diluted  | \$(0.76)    | \$(0.45)    | \$(0.76)    | \$(0.64)    |
| Shares used in computing<br>loss per share   |             |             |             |             |
| Basic and diluted  | 884,702,182 | 778,780,323 | 884,702,182 | 837,008,681 |
| RECURRING NET LOSS PER COMMON SHARE:   |             |             |             |             |
| Net loss applicable to<br>common shareholders  | \$(675,366) | \$(348,077) | \$(675,366) | \$(539,392) |
| Tyco claims settlement   | -           | -           | -           | -           |
| Merger-related expenses<br>and severance   | 4,589       | 12,095      | 4,589       | 35,383      |

|  |             |             |             |             |
|--|-------------|-------------|-------------|-------------|
| Non-cash severance                                       | -           | 9,862       | -           | 9,862       |
| Extraordinary loss on retirement of debt, net            | -           | -           | -           | -           |
| Cumulative effect of change in accounting principle, net | -           | -           | -           | -           |
| (Loss) income from discontinued operations, net          | 54,003      | 51,013      | 54,003      | 51,013      |
| Other (income) expense, net                              | 8,762       | 4,863       | 8,762       | 5,890       |
| RECURRING NET LOSS APPLICABLE TO COMMON SHAREHOLDERS     | \$(608,012) | \$(270,244) | \$(608,012) | \$(437,244) |
| Recurring net loss applicable to common shareholders     |             |             |             |             |
| Basic and diluted  | \$(0.69)    | \$(0.35)    | \$(0.69)    | \$(0.52)    |
| ADJUSTED EBITDA AND RECURRING ADJUSTED EBITDA            |             |             |             |             |
| Operating loss   | \$(513,259) | \$(163,658) | \$(513,259) | \$(307,330) |
| Depreciation and amortization                            | 412,609     | 278,792     | 412,609     | 393,399     |
| Stock related expense                                    | 5,126       | 18,851      | 5,126       | 20,086      |
| Cash portion of the change in deferred revenue           | 531,585     | 165,932     | 531,585     | 165,932     |
| ADJUSTED EBITDA  | \$436,061   | \$299,917   | \$436,061   | \$272,087   |
| Merger-related expenses and severance                    | 5,147       | 12,095      | 5,147       | 35,383      |
| Tyco claims settlement                                   | -           | -           | -           | -           |
| RECURRING ADJUSTED EBITDA                                | \$441,208   | \$312,012   | \$441,208   | \$307,470   |

(Unaudited)  
Three Months  
Ended  
December 31,  
2000

|                                       |           |
|---------------------------------------|-----------|
| REVENUES                              | \$996,965 |
| OPERATING EXPENSES:                   |           |
| Cost of access and maintenance        | 547,232   |
| Other operating expenses              | 601,296   |
| Depreciation and amortization         | 428,425   |
| Total operating expenses              | 1,576,953 |
| OPERATING LOSS                        | (579,988) |
| Other income (expense):               |           |
| Equity in (loss) income of affiliates | (36,533)  |
| Minority interest                     | 21,145    |
| Interest income                       | 56,439    |
| Interest expense                      | (99,780)  |
| Other income (expense), net           | 279,724   |

(LOSS) INCOME FROM CONTINUING OPERATIONS

|  |           |             |
|--|-----------|-------------|
| BEFORE INCOME TAXES, EXTRAORDINARY ITEMS<br>AND CUMULATIVE EFFECT OF CHANGE IN<br>ACCOUNTING |           | (358,993)   |
| Benefit (provision) from income taxes  |           | 61,486      |
| (LOSS) INCOME BEFORE EXTRAORDINARY<br>ITEMS AND CUMULATIVE EFFECT OF<br>CHANGE IN ACCOUNTING |           | (297,507)   |
| (Loss) income from discontinued<br>operations, net (1)                                       |           | (123,622)   |
| Extraordinary loss on retirement<br>of debt, net   |           | (23,848)    |
| Cumulative effect of change<br>in accounting principle, net                                  |           | (9,059)     |
| NET LOSS   |           | (454,036)   |
| Preferred stock dividends  |           | (59,392)    |
| Conversion of preferred stock into common stock  | -         |             |
| NET LOSS APPLICABLE TO COMMON SHAREHOLDERS   |           | \$(513,428) |
| NET LOSS PER COMMON SHARE:   |           |             |
| Loss from continuing operations  |           |             |
| applicable to common shareholders  |           |             |
| Basic and diluted  |           | \$(0.40)    |
| Loss from discontinued operations, net   |           |             |
| Basic and diluted  |           | (0.14)      |
| Extraordinary loss on retirement of debt, net  |           |             |
| Basic and diluted  |           | (0.03)      |
| Cumulative effect of change in accounting principle, net                                     |           |             |
| Basic and diluted  |           | (0.01)      |
| Net loss applicable to common shareholders   |           |             |
| Basic and diluted  |           | \$(0.58)    |
| Shares used in computing loss per share  |           |             |
| Basic and diluted  |           | 883,786,120 |
| RECURRING NET LOSS PER COMMON SHARE:   |           |             |
| Net loss applicable  |           |             |
| to common shareholders   |           |             |
|  |           | \$(513,428) |
| Tyco claims settlement   |           | 9,065       |
| Merger-related expenses and severance  | 5,385     |             |
| Non-cash severance   | 5,085     |             |
| Extraordinary loss on retirement of debt, net  | 23,848    |             |
| Cumulative effect of change in accounting principle, net                                     | 9,059     |             |
| (Loss) income from discontinued operations, net  | 123,622   |             |
| Other (income) expense, net  | (279,724) |             |
| RECURRING NET LOSS APPLICABLE<br>TO COMMON SHAREHOLDERS                                      |           | \$(617,088) |
| Recurring net loss applicable to common shareholders   |           |             |
| Basic and diluted  |           | \$(0.70)    |
| ADJUSTED EBITDA AND RECURRING ADJUSTED EBITDA  |           |             |
| Operating loss   |           | \$(579,988) |
| Depreciation and amortization  |           | 428,425     |
| Stock related expense  |           | 12,218      |

|  |           |
|--|-----------|
| Cash portion of the change in deferred revenue | 543,356   |
| ADJUSTED EBITDA                                | \$404,011 |
| Merger-related expenses and severance          | 5,385     |
| Tyco claims settlement                         | 9,065     |
| RECURRING ADJUSTED EBITDA                      | \$418,461 |

(1) This amount is comprised of approximately \$6 million in losses from the results of discontinued operations for the quarter. In addition, this amount reflects an approximate \$82 million gain, net of tax, resulting from the January 2001 sale of GlobalCenter to Exodus Communications as well as an estimated loss of \$130 million, net of tax, related to the sale of the ILEC business to Citizens Communications, which has a contemplated closing date of June 2001.

**GLOBAL CROSSING LTD. AND SUBSIDIARIES**  
**SELECTED FINANCIAL INFORMATION**

(Unaudited)  
(In thousands)

|                       | Reported(1)        |                    | Pro forma(2)       |                    |
|-----------------------|--------------------|--------------------|--------------------|--------------------|
|                       | Three Months Ended | Three Months Ended | Three Months Ended | Three Months Ended |
|                       | March 31, 2001     | March 31, 2000     | March 31, 2001     | March 31, 2000     |
| Revenue Summary:      |                    |                    |                    |                    |
| CASH REVENUE:         |                    |                    |                    |                    |
| Commercial            | 422,222            | 300,085            | 422,222            | 387,825            |
| Consumer              | 40,137             | 45,700             | 40,137             | 45,700             |
| Carrier               | 955,878            | 654,450            | 955,878            | 654,450            |
| Telecommunications    |                    |                    |                    |                    |
| Services Cash Revenue | 1,418,237          | 1,000,235          | 1,418,237          | 1,087,975          |
| Telecommunications    |                    |                    |                    |                    |
| Services Cash Revenue |                    |                    |                    |                    |
| - Data Products       | 893,396            | 475,546            | 893,396            | 563,286            |
| Telecommunications    |                    |                    |                    |                    |
| Services Cash Revenue |                    |                    |                    |                    |
| - Voice Products      | 524,841            | 524,689            | 524,841            | 524,689            |
| Telecommunications    |                    |                    |                    |                    |
| Services Cash Revenue | 1,418,237          | 1,000,235          | 1,418,237          | 1,087,975          |
| Installation and      |                    |                    |                    |                    |
| Maintenance Cash      |                    |                    |                    |                    |
| Revenue(3)            | 209,486            | 91,219             | 209,486            | 91,219             |
| Continuing Operations |                    |                    |                    |                    |
| Cash Revenue(3)       | 1,613,246          | 1,072,501          | 1,613,246          | 1,160,241          |
| REVENUE:              |                    |                    |                    |                    |
| Commercial            | 422,007            | 300,085            | 422,007            | 387,825            |
| Consumer              | 40,137             | 45,700             | 40,137             | 45,700             |
| Carrier:              |                    |                    |                    |                    |
| Service Revenue       | 389,175            | 318,416            | 389,175            | 318,416            |
| Sales Type Lease      |                    |                    |                    |                    |
| Revenue               | 18,029             | 166,691            | 18,029             | 166,691            |

|                    |         |         |         |         |  |
|--------------------|---------|---------|---------|---------|--|
| Amortization of    |         |         |         |         |  |
| prior period IRUs  | 17,304  | 3,411   | 17,304  | 3,411   |  |
| Carrier            | 424,508 | 488,518 | 424,508 | 488,518 |  |
| Telecommunications |         |         |         |         |  |
| Services Revenue   | 886,652 | 834,303 | 886,652 | 922,043 |  |

|                        |           |         |           |         |  |
|------------------------|-----------|---------|-----------|---------|--|
| Telecommunications     |           |         |           |         |  |
| Services Revenue       |           |         |           |         |  |
| - Data Products        | 361,811   | 309,614 | 361,811   | 397,354 |  |
| Telecommunications     |           |         |           |         |  |
| Services Revenue       |           |         |           |         |  |
| - Voice Products       | 524,841   | 524,689 | 524,841   | 524,689 |  |
| Telecommunications     |           |         |           |         |  |
| Services Revenue       | 886,652   | 834,303 | 886,652   | 922,043 |  |
| Installation and       |           |         |           |         |  |
| Maintenance Revenue(3) | 209,486   | 91,219  | 209,486   | 91,219  |  |
| Continuing Operations  |           |         |           |         |  |
| Revenue(3)             | 1,081,661 | 906,569 | 1,081,661 | 994,309 |  |

SERVICE REVENUE:

|                             |           |         |           |         |  |
|-----------------------------|-----------|---------|-----------|---------|--|
| Telecommunications          |           |         |           |         |  |
| Services Service Revenue    |           |         |           |         |  |
| - Data Products             | 326,478   | 139,512 | 326,478   | 227,252 |  |
| Telecommunications          |           |         |           |         |  |
| Services Service Revenue    |           |         |           |         |  |
| - Voice Products            | 524,841   | 524,689 | 524,841   | 524,689 |  |
| Telecommunications Services |           |         |           |         |  |
| Service Revenue             | 851,319   | 664,201 | 851,319   | 751,941 |  |
| Continuing Operations       |           |         |           |         |  |
| Service Revenue(3)          | 1,046,328 | 736,467 | 1,046,328 | 824,207 |  |

## Selected Financial Information

|                           |         |         |         |         |  |
|---------------------------|---------|---------|---------|---------|--|
| Recurring Adjusted EBITDA |         |         |         |         |  |
| TELECOMMUNICATIONS        |         |         |         |         |  |
| SERVICES(4)               | 415,187 | 291,340 | 415,187 | 286,798 |  |
| INSTALLATION &            |         |         |         |         |  |
| MAINTENANCE(4)            | 26,021  | 20,672  | 26,021  | 20,672  |  |
| CONTINUING OPERATIONS(4)  | 441,208 | 312,012 | 441,208 | 307,470 |  |

|                                    |           |         |   |   |  |
|------------------------------------|-----------|---------|---|---|--|
| Cash Paid For Capital Expenditures |           |         |   |   |  |
| TELECOMMUNICATIONS                 |           |         |   |   |  |
| SERVICES                           | 1,253,540 | 730,207 | - | - |  |
| INSTALLATION &                     |           |         |   |   |  |
| MAINTENANCE                        | 15,829    | 30,315  | - | - |  |
| CONTINUING OPERATIONS              | 1,269,369 | 760,522 | - | - |  |

|                         |         |         |   |   |  |
|-------------------------|---------|---------|---|---|--|
| Discontinued Operations |         |         |   |   |  |
| REVENUE                 | 191,124 | 226,430 | - | - |  |
| RECURRING ADJUSTED      |         |         |   |   |  |
| EBITDA                  | 98,172  | 89,164  | - | - |  |

CASH PAID FOR  
CAPITAL EXPENDITURES 49,584 100,024 .

Three Months  
Ended  
Dec. 31,  
2000

## Revenue Summary:

## CASH REVENUE:

|                                   |           |
|-----------------------------------|-----------|
| Commercial                        | 394,623   |
| Consumer                          | 39,616    |
| Carrier                           | 957,481   |
| Telecommunications Services       |           |
| Cash Revenue                      | 1,391,720 |
| Telecommunications Services       |           |
| Cash Revenue - Data Products      | 866,718   |
| Telecommunications Services       |           |
| Cash Revenue - Voice Products     | 525,002   |
| Telecommunications Services       |           |
| Cash Revenue                      | 1,391,720 |
| Installation and Maintenance      | -         |
| Cash Revenue(3)                   | 160,638   |
| Continuing Operations             |           |
| Cash Revenue(3)                   | 1,540,321 |
| REVENUE:                          |           |
| Commercial                        | 394,623   |
| Consumer                          | 39,616    |
| Carrier:                          |           |
| Service Revenue                   | 371,918   |
| Sales Type Lease Revenue          | 31,495    |
| Amortization of prior period IRUs | 10,712    |
| Carrier                           | 414,125   |
| Telecommunications Services       |           |
| Revenue                           | 848,364   |
| Telecommunications Services       |           |
| Revenue - Data Products           | 323,362   |
| Telecommunications Services       |           |
| Revenue - Voice Products          | 525,002   |
| Telecommunications Services       |           |
| Revenue                           | 848,364   |
| Installation and Maintenance      | -         |
| Revenue(3)                        | 160,638   |
| Continuing Operations Revenue(3)  | 996,965   |
| SERVICE REVENUE:                  |           |
| Telecommunications Services       |           |
| Service Revenue - Data Products   | 281,155   |
| Telecommunications Services       |           |
| Service Revenue - Voice Products  | 525,002   |
| Telecommunications Services       |           |
| Service Revenue                   | 806,157   |

|  |         |           |
|--|---------|-----------|
| Continuing Operations Service Revenue(3) | 954,758 |           |
| Selected Financial Information           |         |           |
| Recurring Adjusted EBITDA                |         |           |
| TELECOMMUNICATIONS SERVICES(4)           |         | 394,273   |
| INSTALLATION & MAINTENANCE(4)            |         | 24,188    |
| CONTINUING OPERATIONS(4)                 | 418,461 |           |
| Cash Paid For Capital Expenditures       |         |           |
| TELECOMMUNICATIONS SERVICES              |         | 1,695,898 |
| INSTALLATION & MAINTENANCE               |         | 38,544    |
| CONTINUING OPERATIONS                    |         | 1,734,442 |
| Discontinued Operations                  |         |           |
| REVENUE                                  | 234,881 |           |
| RECURRING ADJUSTED EBITDA                |         | 51,976    |
| CASH PAID FOR CAPITAL EXPENDITURES       |         | -         |

(1) The Reported amounts in the table above reflect the Company's quarterly results for continuing operations for the three months ended March 31, 2001 and March 31, 2000.

(2) The Pro forma amounts in the table above reflect, for both periods presented, the Company's formation of Hutchison **Global Crossing**, the acquisition of IPC/IXnet and the dispositions of both the ILEC and GlobalCenter, as if each had occurred on January 1, 2000.

(3) Installation and Maintenance Revenue includes \$12,037, \$18,953 and \$14,477 in revenue related to services performed for the Telecommunications Services Segment for the three month periods ended 12/31/00, 3/31/00 and 3/31/01, respectively. These revenues and the related intercompany profit are eliminated in consolidation.

(4) The Recurring Adjusted EBITDA Segment information has been reclassified for all periods presented in order to reflect the services provided to the Telecommunications Services Segment by the Installation and Maintenance Segment at their contract values. CONTACT: **Global Crossing Ltd.**  
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**HEADLINE:** **Global Crossing** Reports 2000 Pro Forma Cash Revenue up 36%, Recurring Adjusted EBITDA up 54% from 1999

**DATELINE:** HAMILTON, Bermuda, Feb. 14, 2001

**BODY:**

**Global Crossing** Ltd. (NYSE:GX):

-- Cash Revenue from Data Products increased 72% from fourth quarter 1999; represents 62% of Telecommunications Services Cash Revenue, up from 51% from one year ago, pro forma for acquisitions and dispositions.

-- Completed an agreement with SWIFT to supply secure global communications to over 7,000 financial institutions in 190 countries. **Global Crossing** will develop and manage SWIFT's Secure IP Network, with a minimum of \$300 million of revenue.

-- Completed sale of GlobalCenter to Exodus Communications for 108.2 million shares of Exodus stock, together with a network services agreement that requires Exodus to purchase more than 50% of future bandwidth needs, projected to generate \$4-5 billion of revenue over 10 years. -- Reaffirmed 2001 financial guidance with continuing operations expected to generate approximately \$7.1-\$7.3 billion of Cash Revenue and Recurring Adjusted EBITDA of \$2.0-\$2.1 billion.

-- The **Global Crossing** Network is now approximately 85% complete, putting into immediate operation the world's most extensive global IP-based fiber optic network, connecting the major regions of North America, Europe, South America and Asia.

**Global Crossing** Ltd. (NYSE:GX), which provides integrated telecommunications solutions over the world's most extensive global IP-based fiber optic network, today reported record results for the fourth quarter and full year ended December 31, 2000. The Company reported fourth quarter Cash Revenue of \$1,540 million, Recurring Adjusted EBITDA of \$418 million, and a Recurring Net Loss of \$617 million, or \$0.70 per share. Net Loss Applicable to Common Shareholders of \$513 million or \$0.58 per share for the fourth quarter reflects a \$303 million pre-tax gain, included in other income, realized as a result of the October 2000 initial public offering of common stock of the Company's Asia **Global Crossing** subsidiary and related events. For the full year 2000, the Company reported Cash Revenue of \$5,160 million, Recurring Adjusted EBITDA of \$1,469 million and Recurring Net Loss of \$1,779 million, or \$2.11 per share. These results exclude both GlobalCenter and the incumbent local exchange carrier (ILEC) business, which are treated as discontinued operations as discussed below (see Summary of Pro Forma Results).



Tom Casey, Chief Executive Officer of **Global Crossing**, said, "We are extremely pleased with our fourth quarter results, and again we have exceeded expectations while many other telecommunications providers have reported disappointing results. New contracts with demanding customers such as SWIFT, Computer Sciences Corporation (CSC), and Garban are tangible evidence that sophisticated global enterprises can rely on **Global Crossing** to satisfy their most critical needs. These contracts validate the reliability and functionality of our worldwide seamless network. Successes with these global enterprise customers are based on our capabilities in managing secure IP networks, as well as the unmatched combination of bandwidth and geographic presence that we offer. An additional benefit from these relationships is that we plan to have SWIFT's and CSC's sales forces selling **Global Crossing's** products. We gain not only the direct customer revenue but also the additional revenue generated through new indirect sales channels."

Casey continued, "Our successes with global enterprise customers like SWIFT, CSC and Garban have not yet been reflected in our operating results. However, we expect customers such as these to rapidly become significant contributors to growth in revenue and profitability in the Commercial segment as we continue to de-emphasize service offerings to small and medium business customers. With our global network virtually complete and fully funded, and with the IP/VPN capabilities that we're implementing for new customers such as SWIFT, we have tremendous operating leverage as we add new customers to the network at very low incremental cost. We can reduce network costs for our customers as we increase our own margins."

#### Service Offerings

**Global Crossing** continued its expansion of product capabilities across its global fiber optic network. At the end of the fourth quarter of 2000, international private line services were available in 29 European cities, Tokyo, and the major cities of North America, South America and Mexico. In addition, the **Global Crossing** Wavelength Service was available in North America and Europe. Data products such as ATM, Frame Relay and IP services are now available in North America, the United Kingdom, continental Europe, and Tokyo.

**Global Crossing** completed the first phase of its migration to a next-generation voice-over-IP (VoIP) network by initiating service in 23 core VoIP gateway centers worldwide. The gateway centers are currently deployed in fifteen U.S. cities, seven in Europe, and one in Japan. The Company will continue to rapidly extend its VoIP platform around the world. In 2001, the international footprint is expected to extend into South and Central America with continued expansion throughout Europe and Asia. This effort is consistent with the Company's mission of completing a truly global network based on NexGen IP by the middle of 2001 and allows **Global Crossing** to provide voice services on its owned and operated core network at a fraction of the cost of traditional switching infrastructure. The Company expects to have most of its new international backbone voice traffic on the VoIP network by the end of 2001. The VoIP network is a key step in providing integrated product capabilities on a worldwide basis for converged services.

#### Network Build

During the quarter, **Global Crossing** continued its successful record of completing its worldwide fiber optic network on time and on budget. The network, which is 85% complete in terms of route miles, will have more than 100,000 route miles, serving five continents, 27 countries and more than 200 major cities by the middle of 2001. During the quarter, the Company completed landings of the South American Crossing (SAC) undersea system in Chile, Brazil, and Argentina. The Company also completed the Pan American Crossing (PAC) system, which is a key link in making **Global Crossing** the first company to connect the three largest telecommunications markets in Latin America -- Brazil, Mexico, and Argentina

-- to the U.S., Europe and Asia via a seamless global fiber optic network. Atlantic Crossing 2 (AC-2) was completed, providing a third meshed connection between the U.S. and Europe which more than doubles the Company's current capacity in this region. In the Pacific, the final legs (Southern and Eastern) of the Pacific Crossing (PC-1) system were completed, providing full ring restoration capability to traffic from Asia to North America. The East Asia Crossing (EAC) subsea cable system was landed in Hong Kong, connecting that city to PC-1 and the rest of the worldwide **Global Crossing** Network. EAC is also connected to the Hutchison **Global Crossing** terrestrial network, the most extensive fully fiber network in Hong Kong with direct connections to over 800 buildings. Lastly, the Scandinavian ring of Pan European Crossing went into service, increasing the number of cities in Europe to 41 of the planned 47 when construction is to be completed by mid-2001.'

**Global Crossing's** metropolitan fiber roll-out is also well underway worldwide, bringing fiber from the global network directly to customer premises. In 2000, the Company completed metro rings in 10 cities in the United States (New York, Philadelphia, Washington D.C., Atlanta, Miami, Dallas, Chicago, San Francisco, San Jose, Los Angeles), 4 cities in Europe (London, Paris, Frankfurt, Amsterdam), and 3 cities in Asia (Tokyo, Osaka, Hong Kong). This local connectivity is expected to dramatically reduce provisioning time and transmission costs, provide better control over quality of service, and enable the delivery of new products and services (e.g., gigabit ethernet), creating significant new revenue opportunities.

#### Financing Activities

The Company arranged approximately \$2 billion in financing since the third quarter 2000, which is intended to lower the Company's overall cost of capital. Proceeds from a \$1 billion ILEC bridge loan completed in October 2000 were used to repay an existing Racal credit facility. Proceeds from a \$1 billion offering of Senior Notes Due 2007 completed in January 2001 were used to refinance existing indebtedness under the Company's corporate credit facility.

During fiscal 2000, the Company and its affiliates arranged approximately \$5 billion in financing which includes the completion of Asia **Global Crossing's** (AGC) initial public offering of common stock (\$479 million, including exercise of the underwriters' over-allotment option), and AGC's issuance of \$400 million of 13.375% Senior Notes Due 2010. When combined with the \$3.65 billion in estimated pre-tax cash proceeds from the sale of its ILEC business and the Company's expected operating cash flow, these financings complete the funding of the Company's current business plan.

#### Summary of Pro Forma Results

Results for Continuing Operations exclude **Global Crossing's** ILEC business, which the Company has agreed to sell to Citizens Communications for an estimated \$3.65 billion in cash, and GlobalCenter, whose sale to Exodus was completed on January 10, 2001 for 108.2 million shares of Exodus common stock. GlobalCenter has been treated as a discontinued operation for all periods presented because it was sold to Exodus Communications and **Global Crossing** now owns less than 20% of the outstanding common stock of Exodus and exercises no control or significant influence over the management of Exodus. When the Company reported third quarter results, GlobalCenter was classified as part of continuing operations because, pursuant to a merger agreement signed on September 28, 2000, the Company expected at that time to own more than 20% of Exodus. The reduction in ownership percentage occurred because the number of outstanding shares of Exodus common stock increased.

Unless otherwise noted, period-to-period comparisons throughout this press release are discussed giving pro forma effect to all acquisitions (Frontier, Global Marine, Racal, Hutchison **Global Crossing** and IPC/IXnet) and dispositions (ILEC and GlobalCenter), as if each had occurred on January 1, 1999.

Detailed pro forma comparisons are shown in the attached schedules.

The "Continuing Operations" section of the tables below summarize both the pro forma quarterly and pro forma annual operating results of the Company and its subsidiaries excluding the ILEC and GlobalCenter.

The "Discontinued Operations" section of the tables below summarize both the pro forma quarterly and pro forma annual operating results of the discontinued operations of the ILEC and Global Center.  
Summary of Quarterly Pro Forma Operations:

|                                  | Three Months Ended |             | Change  |         |
|----------------------------------|--------------------|-------------|---------|---------|
|                                  | Dec. 31,           | Dec. 31,    | Amount  | Percent |
|                                  | 2000               | 1999        |         |         |
|                                  | (Unaudited)        | (Unaudited) |         |         |
|                                  | (in millions)      |             |         |         |
| Pro Forma Continuing Operations: |                    |             |         |         |
| Cash Revenue (a)                 | \$ 1,540           | \$ 1,078    | \$ 462  | 43%     |
| Recurring Adjusted EBITDA        | \$ 418             | \$ 310      | \$ 108  | 35%     |
| Discontinued Operations --       |                    |             |         |         |
| ILEC & GlobalCenter:             |                    |             |         |         |
| Cash Revenue (a)                 | \$ 235             | \$ 211      | \$ 24   | 11%     |
| Recurring Adjusted EBITDA        | \$ 52              | \$ 89       | (\$ 37) | (42%)   |

(a) Consistent with industry practice, the Company has reclassified bad debt expense to be a component of other operating expenses for all periods presented. These reclassifications have no effect on reported operating results or cash flows. The impact of this change in the fourth quarter of 2000 was to increase reported revenue and cash revenue by approximately \$14 million.

Summary of Annual Pro Forma Operations:

|                                  | Year Ended    |             | Change   |         |
|----------------------------------|---------------|-------------|----------|---------|
|                                  | Dec. 31,      | Dec. 31,    | Amount   | Percent |
|                                  | 2000          | 1999        |          |         |
|                                  | (Unaudited)   | (Unaudited) |          |         |
|                                  | (in millions) |             |          |         |
| Pro Forma Continuing Operations: |               |             |          |         |
| Cash Revenue (a)                 | \$ 5,329      | \$ 3,913    | \$ 1,416 | 36%     |
| Recurring Adjusted EBITDA        | \$ 1,463      | \$ 947      | \$ 516   | 54%     |
| Discontinued Operations --       |               |             |          |         |
| ILEC & GlobalCenter:             |               |             |          |         |
| Cash Revenue (a)                 | \$ 936        | \$ 808      | \$ 128   | 16%     |
| Recurring Adjusted EBITDA        | \$ 288        | \$ 363      | (\$ 75)  | (21%)   |

(a) Consistent with industry practice, the Company has reclassified bad debt expense to be a component of other operating expenses for all periods presented. These reclassifications have no effect on reported operating results or cash flows. The impact of this change in the fourth quarter of 2000 was to increase reported revenue and cash

revenue by approximately \$77 million.

The results exceeded the Company's projections for 2000, which were published on August 31, 2000, and assumed GlobalCenter as part of continuing operations. Had GlobalCenter been included as a continuing operation, the Company would have reported Cash Revenue of \$1,595 million and Recurring Adjusted EBITDA of \$372 million for the fourth quarter, and Cash Revenue of \$5,350 million and Recurring Adjusted EBITDA of \$1,371 million for the year.

In the fourth quarter of 2000, the Company adopted effective January 1, 2000, Staff Accounting Bulletin 101, "Revenue Recognition in Financial Statements" ("SAB 101"), which requires amortization of certain start-up and activation revenues and deferral of associated costs over the longer of the contract period or expected customer relationship. Previously, such revenues and expenses were recognized upon service activation. The net impact of SAB 101 reduced fourth quarter 2000 revenue by approximately \$2.4 million, and increased fourth quarter amortization expense by approximately \$10.8 million. The cumulative impact on the results of prior years was reflected as a \$9.1 million cumulative effect of a change in accounting principle in accordance with the adoption provisions of this bulletin.

#### Telecommunications Services Segment

The Telecommunications Services Segment, which is comprised of commercial, consumer and carrier businesses for bandwidth, data, voice, audio/video conferencing and other value-added services, experienced Cash Revenue growth of 40% and Adjusted EBITDA growth of 37%, from fourth quarter 1999. Cash Revenue increased 36%, and Adjusted EBITDA of \$1,362 million for the full year 2000 increased 58% over 1999 results. Cash Revenue from data products, up 72% from fourth quarter 1999, now accounts for 62% of Telecommunications Services Cash Revenue, up from 51% in the fourth quarter of 1999. The accelerating growth in Telecommunications Services is being driven by the initiation of service on new systems in Latin America (MAC/SAC) and Asia (PC-1/EAC) which are now selling value-added services to meet the growing needs of global enterprises. In addition, data Service Revenue increased 34% from the fourth quarter 1999, led by strong growth in data products such as Frame Relay, ATM and IP. The unrecognized sales backlog for the Telecommunications Services Segment exceeded \$2.5 billion as of December 31, 2000.

Because **Global Crossing** has de-emphasized service offerings to the small and medium enterprise (SME) business segment in North America and the UK, the Company is managing revenue from this segment to levels representing less growth in commercial data products. Recently announced contracts like SWIFT, CSC and Garban are expected to accelerate commercial services growth to more than make up for the slowing revenues from SME's.

Carrier Cash Revenue for 2000 was \$3,110 million compared to \$1,840 million in 1999, an increase of 69%. In addition to bandwidth sales and rapid growth in wholesale data products, a contributor to this strong growth is the performance of the carrier voice business, which increased revenues from 1999 by 32%.

Cost of Access and Maintenance (COA&M) was higher in the fourth quarter of 2000 as maintenance costs increased due to the initiation of new systems, and accrued access charges increased as a percentage of revenue. In future periods, the Company expects COA&M as a percentage of revenue to decline from the level reported for the fourth quarter 2000.

#### Installation and Maintenance Services Segment

The installation and maintenance business segment, consisting of the Company's Global Marine

subsidiary, reported revenue of \$149 million for the fourth quarter of 2000, an increase of approximately 83% as compared to the fourth quarter of 1999. During the quarter, the Company experienced an increase in revenue due to the redeployment of vessels from maintenance projects to installation projects including the initiation of contract work for KDD and Tyco on East Asian Crossing and Pan American Crossing subsea systems.

For the full year 2000, reported revenue was \$460 million, an increase of 36% from 1999, while Recurring Adjusted EBITDA was \$102 million, an increase of 19% from 1999 results.

#### Discontinued Operations -- Incumbent Local Exchange Carrier & GlobalCenter

The Company's discontinued operations, consisting of its ILEC and GlobalCenter segments, reported revenue of \$235 million for the fourth quarter with Recurring Adjusted EBITDA of \$52 million. Annual revenue of \$936 million was \$127 million higher than 1999 results, while annual Recurring Adjusted EBITDA of \$288 million was 21% less than 1999 results. **Global Crossing** announced an agreement on July 12, 2000 to sell the ILEC business, acquired as part of its acquisition of Frontier, to Citizens Communications for an estimated \$3.65 billion in cash. The transaction, which is subject to regulatory approvals, is expected to close during the summer of 2001.

#### 2001 Projected Annual and Quarterly Financial Results

The Company reaffirmed previously announced projections of its financial performance for the fiscal year ending December 31, 2001. **Global Crossing** expects its continuing operations to generate approximately \$7.1-\$7.3 billion of Cash Revenue, a 33%-37% increase over pro forma 2000 Cash Revenue results, and Recurring Adjusted EBITDA of \$2.0-\$2.1 billion, a 37%-43% increase over pro forma 2000 Recurring Adjusted EBITDA results. These growth rates are consistent with the Company's previously stated long-term growth objectives of 30% annual growth in Cash Revenue and 35%-40% growth in Adjusted EBITDA.

The table below summarizes the Company's estimates of its financial performance for the first quarter ending March 31, 2001, and for the full year 2001.

(\$ -- in millions)

(Unaudited)

| Three Months Ended     |                 |                           | Full Year      |                 |                           | Percent |
|------------------------|-----------------|---------------------------|----------------|-----------------|---------------------------|---------|
| March 31, 2001         | March 31, 2000  | Percent Increase/Decrease | 2001           | 2000            | Percent Increase/Decrease |         |
| Forecast Range         | Pro Forma Range | (Decrease)                | Forecast Range | Pro Forma Range | (Decrease)                |         |
| Continuing Operations: |                 |                           |                |                 |                           |         |
| Revenue                | \$990-1,040     | \$994(a)                  | 5%             | \$5,050-5,300   | \$3,958                   | 28-34%  |
| Service Revenue        | \$975-1,025     | \$824                     | 18-24%         | \$5,000-5,250   | \$3,580                   | 40-47%  |
| Cash Revenue           | \$1,500-1,600   | \$1,160                   | 29-38%         | \$7,100-7,300   | \$5,329                   | 33-37%  |
| Adjusted EBITDA        | \$430-450       | \$307                     | 40-47%         | \$2,000-2,100   | \$1,463                   | 37-43%  |

(a) Revenue for the first quarter of 2000 included approximately \$170

million associated with sales type leases.

The Company stated that the current consensus of analysts' estimates of Recurring Net Income for 2001 and for the first quarter of 2001 is reasonable.

The Company also reaffirmed its previously announced plans to make capital expenditures of approximately \$10 billion in the aggregate for 2000-2001. Capital spending for continuing operations during 2001 (including spending by its Asia **Global Crossing** subsidiary) is expected to be approximately \$4.9 to \$5.1 billion, an amount that includes approximately \$1 billion of previously announced capital spending from the 2000 capital program for which payments will be made in 2001.

#### Definition of Terms Used

Throughout this press release, Pro Forma results have been discussed, which give effect to all acquisitions (Frontier, Global Marine, Racal, Hutchison **Global Crossing** and IPC/IXnet) and dispositions (ILEC and GlobalCenter), as if each had occurred on January 1, 1999.

In this press release, Revenue refers to revenue reported on the Company's statements of operations under Generally Accepted Accounting Principles. Cash Revenue refers to Revenue plus the cash portion of the change in deferred revenue. Service Revenue excludes all impacts of IRU sales, and refers to Revenue less any revenue recognized immediately for circuit activations that qualified as sales type leases. Adjusted EBITDA refers to operating income (loss) plus goodwill and intangibles amortization, depreciation and amortization, non-cash cost of capacity sold, stock related expense and the cash portion of the change in deferred revenue, which definition is consistent with the financial covenants contained in the Company's major financing agreements. Recurring Adjusted EBITDA refers to Adjusted EBITDA plus one-time merger and integration expenses and other non-recurring expenses. For all periods presented, net income generated by the ILEC and GlobalCenter businesses is reported as "Income from discontinued operations, net of taxes" on the accompanying Condensed Consolidated Statements of Operations.

#### About **Global Crossing**

**Global Crossing** Ltd. (NYSE:GX) provides integrated telecommunications solutions over the world's most extensive global IP-based fiber optic network, which will have more than 100,000 route miles, reaching five continents, 27 countries and more than 200 major cities by mid-2001. **Global Crossing** serves many of the world's largest corporations, providing a full range of managed data and voice products and services. **Global Crossing** operates throughout the Americas, Europe, and the Asia/Pacific region, and provides services in Asia through its subsidiary, Asia **Global Crossing**. **Global Crossing** Solutions provides integrated telecommunications solutions, including network outsourcing, to large global enterprises. Please visit [www.globalcrossing.com](http://www.globalcrossing.com) or [www.asiaglobalcrossing.com](http://www.asiaglobalcrossing.com) for more information.

Statements made in this press release that state the Company's or management's intentions, beliefs, expectations, or predictions for the future are forward-looking statements. Such forward-looking statements are subject to a number of risks, assumptions and uncertainties that could cause the Company's actual results to differ materially from those projected in such forward-looking statements. These risks, assumptions and uncertainties include: the ability to complete systems within currently estimated time frames and budgets; the ability to compete effectively in a rapidly evolving and price competitive marketplace; changes in the nature of telecommunications regulation in the United States and other countries; changes in business strategy; the successful integration of newly-acquired businesses; the impact of technological change; and other risks referenced from time to time in the

Company's filings with the Securities and Exchange Commission.

**GLOBAL CROSSING LTD. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**  
(In thousands, except share and per share amounts)

|   | (Unaudited)        |            | (Unaudited)        |            |
|---|--------------------|------------|--------------------|------------|
|   | Pro forma          |            | Pro forma          |            |
|   | Three Months Ended |            | Three Months Ended |            |
|   | Dec. 31,           | Dec. 31,   | Dec. 31,           | Dec. 31,   |
|   | 2000               | 1999       | 2000               | 1999       |
| REVENUES  | \$ 996,965         | \$ 867,266 | \$ 996,965         | \$ 999,609 |
| OPERATING EXPENSES:   |                    |            |                    |            |
| Cost of access and maintenance  | 547,232            | 374,139    | 547,232            | 383,550    |
| Other operating expenses  | 601,296            | 341,010    | 601,296            | 415,003    |
| Depreciation and amortization   | 428,425            | 250,770    | 446,925            | 403,734    |
| Total operating expenses  | 1,576,953          | 965,919    | 1,595,453          | 1,202,287  |
| OPERATING LOSS  | (579,988)          | (98,653)   | (598,488)          | (202,678)  |
| Other income (expense):   |                    |            |                    |            |
| Equity in (loss) income of affiliates   | (36,533)           | 21,179     | (36,533)           | (5,221)    |
| Minority interest   | 21,145             | (1,338)    | 21,145             | (13,310)   |
| Interest income   | 56,439             | 15,572     | 56,439             | 17,001     |
| Interest expense  | (99,780)           | (55,469)   | (99,780)           | (95,814)   |
| Other income (expense), net   | 279,724            | (34,616)   | 279,724            | (33,876)   |
| (LOSS) INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES, EXTRAORDINARY ITEMS AND CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE | (358,993)          | (153,325)  | (377,493)          | (333,898)  |
| Benefit (provision) from income taxes   | 61,486             | 2,204      | 61,486             | 17,510     |
| (LOSS) INCOME FROM CONTINUING OPERATIONS BEFORE EXTRAORDINARY ITEMS AND CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE               | (297,507)          | (151,121)  | (316,007)          | (316,388)  |
| (Loss) income from discontinued operations, net   | (123,622)          | (58,666)   | (123,622)          | (58,666)   |
| Extraordinary loss on retirement of debt, net   | (23,848)           | (30,816)   | (23,848)           | (30,816)   |
| Cumulative effect of  |                    |            |                    |            |

|                            |              |              |              |              |
|----------------------------|--------------|--------------|--------------|--------------|
| change in accounting       |              |              |              |              |
| principle, net             | (9,059)      | --           | (9,059)      | --           |
| NET LOSS                   | (454,036)    | (240,603)    | (472,536)    | (405,870)    |
| Preferred stock            |              |              |              |              |
| dividends                  | (59,392)     | (25,329)     | (59,392)     | (69,765)     |
| Conversion of              |              |              |              |              |
| preferred stock into       |              |              |              |              |
| common stock               | --           | --           | --           | --           |
| NET LOSS APPLICABLE TO     |              |              |              |              |
| COMMON SHAREHOLDERS        | \$ (513,428) | \$ (265,932) | \$ (531,928) | \$ (475,635) |
| NET LOSS PER COMMON SHARE: |              |              |              |              |
| Loss from continuing       |              |              |              |              |
| operations applicable      |              |              |              |              |
| to common shareholders:    |              |              |              |              |
| Basic and diluted          | (0.40)       | (0.23)       | (0.42)       | (0.45)       |
| Loss from discontinued     |              |              |              |              |
| operations, net:           |              |              |              |              |
| Basic and diluted          | (0.14)       | (0.08)       | (0.14)       | (0.07)       |
| Extraordinary loss on      |              |              |              |              |
| retirement of debt, net:   |              |              |              |              |
| Basic and diluted          | (0.03)       | (0.04)       | (0.03)       | (0.04)       |
| Cumulative effect of       |              |              |              |              |
| change in accounting       |              |              |              |              |
| principle, net:            |              |              |              |              |
| Basic and diluted          | (0.01)       | --           | (0.01)       | --           |
| Net loss applicable to     |              |              |              |              |
| common shareholders:       |              |              |              |              |
| Basic and diluted          | (0.58)       | (0.34)       | (0.60)       | (0.56)       |
| Shares used in computing   |              |              |              |              |
| loss per share:            |              |              |              |              |
| Basic and diluted          | 883,786,120  | 772,929,855  | 883,786,120  | 853,294,926  |
| RECURRING NET LOSS         |              |              |              |              |
| PER COMMON SHARE:          |              |              |              |              |
| Net loss applicable to     |              |              |              |              |
| common shareholders        | \$ (513,428) | \$ (265,932) | \$ (531,928) | \$ (475,635) |
| Tyco claims settlement     | 9,065        | --           | 9,065        | --           |
| Merger-related expenses    |              |              |              |              |
| and severance              | 5,385        | 7,600        | 5,385        | 16,700       |
| Non-cash severance         | 5,085        | --           | 5,085        | --           |
| Extraordinary loss on      |              |              |              |              |
| retirement of debt,        |              |              |              |              |
| net                        | 23,848       | 30,816       | 23,848       | 30,816       |
| Reversal of tax            |              |              |              |              |
| provision related to       |              |              |              |              |
| prior year adjustments     | --           | --           | --           | --           |
| Conversion of preferred    |              |              |              |              |
| stock into common stock    | --           | --           | --           | --           |
| Cumulative effect of       |              |              |              |              |
| change in accounting       |              |              |              |              |
| principle, net             | 9,059        | --           | 9,059        | --           |
| (Loss) income from         |              |              |              |              |



|                          |              |              |              |              |
|--------------------------|--------------|--------------|--------------|--------------|
| discontinued operations, |              |              |              |              |
| net                      | 123,622      | 58,666       | 123,622      | 58,666       |
| Other (income) expense,  |              |              |              |              |
| net                      | (279,724)    | 34,616       | (279,724)    | 33,876       |
| RECURRING NET LOSS       |              |              |              |              |
| APPLICABLE TO COMMON     |              |              |              |              |
| SHAREHOLDERS             | \$ (617,088) | \$ (134,234) | \$ (635,588) | \$ (335,577) |
| Recurring net loss       |              |              |              |              |
| applicable to common     |              |              |              |              |
| shareholders:            |              |              |              |              |
| Basic and diluted        | \$ (0.70)    | \$ (0.17)    | \$ (0.72)    | \$ (0.39)    |
| ADJUSTED EBITDA AND      |              |              |              |              |
| RECURRING ADJUSTED       |              |              |              |              |
| EBITDA:                  |              |              |              |              |
| Operating loss           | \$ (579,988) | \$ (98,653)  | \$ (598,488) | \$ (202,678) |
| Depreciation and         |              |              |              |              |
| amortization             | 428,425      | 250,770      | 446,925      | 403,734      |
| Stock related expense    | 12,218       | 12,697       | 12,218       | 14,060       |
| Cash portion of the      |              |              |              |              |
| change in deferred       |              |              |              |              |
| revenue                  | 543,356      | 63,740       | 543,356      | 78,461       |
| ADJUSTED EBITDA          | \$ 404,011   | \$ 228,554   | \$ 404,011   | \$ 293,577   |
| Merger-related expenses  |              |              |              |              |
| and severance            | 5,385        | 7,600        | 5,385        | 16,700       |
| Tyco claims settlement   | 9,065        | --           | 9,065        | --           |
| RECURRING ADJUSTED       |              |              |              |              |
| EBITDA                   | \$ 418,461   | \$ 236,154   | \$ 418,461   | \$ 310,277   |

**GLOBAL CROSSING LTD. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**  
(In thousands, except share and per share amounts)

|                         |              |              |              |              |
|-------------------------|--------------|--------------|--------------|--------------|
|                         | (Unaudited)  |              |              |              |
|                         | Pro forma    |              |              |              |
|                         | Years Ended  |              | Years Ended  |              |
|                         | Dec. 31,     | Dec. 31,     | Dec. 31,     | Dec. 31,     |
|                         | 2000         | 1999         | 2000         | 1999         |
| REVENUES                | \$ 3,789,179 | \$ 1,490,826 | \$ 3,957,643 | \$ 3,761,116 |
| OPERATING EXPENSES:     |              |              |              |              |
| Cost of access and      |              |              |              |              |
| maintenance             | 1,861,617    | 396,245      | 1,911,529    | 1,448,802    |
| Other operating         |              |              |              |              |
| expenses                | 1,941,764    | 647,690      | 2,111,473    | 1,677,945    |
| Depreciation and        |              |              |              |              |
| amortization            | 1,381,063    | 451,487      | 1,631,710    | 1,354,881    |
| Total operating         |              |              |              |              |
| expenses                | 5,184,444    | 1,495,422    | 5,654,712    | 4,481,628    |
| OPERATING LOSS          | (1,395,265)  | (4,596)      | (1,697,069)  | (720,512)    |
| Other income (expense): |              |              |              |              |
| Equity in (loss)        |              |              |              |              |
| income of affiliates    | (66,719)     | 15,708       | (108,292)    | (24,088)     |

|   |               |              |               |               |
|---|---------------|--------------|---------------|---------------|
| Minority interest   | 15,155        | (1,338)      | 65,184        | 21,186        |
| Interest income   | 127,755       | 61,235       | 129,569       | 60,231        |
| Interest expense  | (390,020)     | (137,011)    | (447,629)     | (574,856)     |
| Other income (expense),<br>net  | 256,038       | 181,366      | 255,223       | 177,056       |
| (LOSS) INCOME FROM<br>CONTINUING OPERATIONS<br>BEFORE INCOME TAXES,<br>EXTRAORDINARY ITEMS AND<br>CUMULATIVE EFFECT OF<br>CHANGE IN ACCOUNTING<br>PRINCIPLE |               |              |               |               |
|   | (1,453,056)   | 115,364      | (1,803,014)   | (1,060,983)   |
| Benefit (provision)<br>from income taxes  | 145,210       | (107,851)    | 155,189       | 1,899         |
| (LOSS) INCOME FROM<br>CONTINUING OPERATIONS<br>BEFORE EXTRAORDINARY<br>ITEMS AND CUMULATIVE<br>EFFECT OF CHANGE IN<br>ACCOUNTING PRINCIPLE                  |               |              |               |               |
|   | (1,307,846)   | 7,513        | (1,647,825)   | (1,059,084)   |
| (Loss) income from<br>discontinued<br>operations, net   | (307,778)     | (58,666)     | (307,778)     | 41,162        |
| Extraordinary loss<br>on retirement of<br>debt, net   | (41,643)      | (45,681)     | (41,643)      | (45,681)      |
| Cumulative effect of<br>change in accounting<br>principle, net  | (9,059)       | (14,710)     | (9,059)       | (14,710)      |
| NET LOSS  | (1,666,326)   | (111,544)    | (2,006,305)   | (1,078,313)   |
| Preferred stock<br>dividends  | (221,448)     | (66,642)     | (240,854)     | (278,703)     |
| Conversion of<br>preferred stock into<br>common stock   | (92,277)      | --           | (92,277)      | --            |
| NET LOSS APPLICABLE TO<br>COMMON SHAREHOLDERS   | \$(1,980,051) | \$ (178,186) | \$(2,339,436) | \$(1,357,016) |
| NET LOSS PER COMMON SHARE:  |               |              |               |               |
| Loss from continuing<br>operations applicable<br>to common shareholders:  |               |              |               |               |
| Basic and diluted   | (1.92)        | (0.12)       | (2.28)        | (1.58)        |
| Loss from discontinued<br>operations, net:  |               |              |               |               |
| Basic and diluted   | (0.36)        | (0.12)       | (0.35)        | 0.05          |
| Extraordinary loss on<br>retirement of debt, net:   |               |              |               |               |
| Basic and diluted   | (0.05)        | (0.09)       | (0.05)        | (0.05)        |
| Cumulative effect of<br>change in accounting<br>principle, net:   |               |              |               |               |

|   |                |              |               |               |
|---|----------------|--------------|---------------|---------------|
| Basic and diluted   | (0.01)         | (0.03)       | (0.01)        | (0.02)        |
| Net loss applicable to common shareholders:                 |                |              |               |               |
| Basic and diluted   | (2.35)         | (0.35)       | (2.69)        | (1.60)        |
| Shares used in computing loss per share:                    |                |              |               |               |
| Basic and diluted   | 844,153,231    | 502,400,851  | 869,130,969   | 848,607,626   |
| RECURRING NET LOSS PER COMMON SHARE:                        |                |              |               |               |
| Net loss applicable to common shareholders                  | \$ (1,980,051) | \$ (178,186) | \$(2,339,436) | \$(1,357,016) |
| Tyco claims settlement                                      | 28,065         | --           | 28,065        | --            |
| Merger-related expenses and severance                       | 36,121         | 7,600        | 70,496        | 99,119        |
| Non-cash severance  | 14,947         | --           | 14,947        | --            |
| Extraordinary loss on retirement of debt, net               | 41,643         | 45,681       | 41,643        | 45,681        |
| Reversal of tax provision related to prior year adjustments | (73,040)       | --           | (73,040)      | --            |
| Conversion of preferred stock into common stock             | 92,277         | --           | 92,277        | --            |
| Cumulative effect of change in accounting principle, net    | 9,059          | 14,710       | 9,059         | 14,710        |
| (Loss) income from discontinued operations, net             | 307,778        | 58,666       | 307,778       | (41,162)      |
| Other (income) expense, net                                 | (256,038)      | (181,366)    | (255,223)     | (177,056)     |
| RECURRING NET LOSS APPLICABLE TO COMMON SHAREHOLDERS        | \$ (1,779,239) | \$ (232,895) | \$(2,103,434) | \$(1,415,724) |
| Recurring net loss applicable to common shareholders:       |                |              |               |               |
| Basic and diluted   | \$ (2.11)      | \$ (0.46)    | \$ (2.42)     | \$ (1.67)     |
| ADJUSTED EBITDA AND RECURRING ADJUSTED EBITDA:              |                |              |               |               |
| Operating loss  | \$ (1,395,265) | \$ (4,596)   | \$(1,697,069) | \$ (720,512)  |
| Depreciation and amortization                               | 1,381,063      | 451,487      | 1,631,710     | 1,354,881     |
| Stock related expense                                       | 47,785         | 51,306       | 58,940        | 61,839        |
| Cash portion of the change in deferred revenue              | 1,371,087      | 120,657      | 1,371,087     | 152,009       |
| ADJUSTED EBITDA   | \$ 1,404,670   | \$ 618,854   | \$ 1,364,668  | \$ 848,217    |
| Merger-related expenses                                     |                |              |               |               |

|                        |              |            |              |            |
|------------------------|--------------|------------|--------------|------------|
| and severance          | 36,121       | 7,600      | 70,496       | 99,119     |
| Tyco claims settlement | 28,065       | --         | 28,065       | --         |
| RECURRING ADJUSTED     |              |            |              |            |
| EBITDA                 | \$ 1,468,856 | \$ 626,454 | \$ 1,463,229 | \$ 947,336 |

**GLOBAL CROSSING LTD. AND SUBSIDIARIES**  
**SELECTED FINANCIAL INFORMATION**  
(Unaudited)  
(In thousands)

|                       | Reported (a)       |          | Pro forma (b)      |           |
|-----------------------|--------------------|----------|--------------------|-----------|
|                       | Three Months Ended |          | Three Months Ended |           |
|                       | Dec. 31,           | Dec. 31, | Dec. 31,           | Dec. 31,  |
|                       | 2000               | 1999     | 2000               | 1999      |
| Revenue Summary:      |                    |          |                    |           |
| CASH REVENUE:         |                    |          |                    |           |
| Commercial            | 394,623            | 257,882  | 394,623            | 384,958   |
| Consumer              | 39,616             | 48,189   | 39,616             | 48,189    |
| Carrier               | 957,481            | 543,940  | 957,481            | 563,934   |
| Telecommunications    |                    |          |                    |           |
| Services Cash Revenue | 1,391,720          | 850,011  | 1,391,720          | 997,081   |
| Telecommunications    |                    |          |                    |           |
| Services Cash Revenue |                    |          |                    |           |
| -- Data Products      | 866,718            | 376,683  | 866,718            | 504,098   |
| Telecommunications    |                    |          |                    |           |
| Services Cash Revenue |                    |          |                    |           |
| -- Voice Products     | 525,002            | 473,328  | 525,002            | 492,983   |
| Telecommunications    |                    |          |                    |           |
| Services Cash Revenue | 1,391,720          | 850,011  | 1,391,720          | 997,081   |
| Installation and      |                    |          |                    |           |
| Maintenance Cash      |                    |          |                    |           |
| Revenue               | 148,601            | 80,995   | 148,601            | 80,995    |
| Continuing Operations |                    |          |                    |           |
| Cash Revenue          | 1,540,321          | 931,006  | 1,540,321          | 1,078,076 |
| REVENUE:              |                    |          |                    |           |
| Commercial            | 394,623            | 257,882  | 394,623            | 384,958   |
| Consumer              | 39,616             | 48,189   | 39,616             | 48,189    |
| Carrier:              |                    |          |                    |           |
| Service Revenue       | 371,918            | 265,031  | 371,918            | 270,298   |
| Sales Type Lease      |                    |          |                    |           |
| Revenue               | 31,495             | 217,804  | 31,495             | 217,804   |
| Amortization of       |                    |          |                    |           |
| prior period IRUs     | 10,712             | 2,441    | 10,712             | 2,441     |
| Carrier               | 414,125            | 485,276  | 414,125            | 490,543   |
| Telecommunications    |                    |          |                    |           |
| Services Revenue      | 848,364            | 791,347  | 848,364            | 923,690   |
| Telecommunications    |                    |          |                    |           |
| Services Revenue      |                    |          |                    |           |
| -- Data Products      | 323,362            | 318,019  | 323,362            | 430,707   |
| Telecommunications    |                    |          |                    |           |
| Services Revenue      |                    |          |                    |           |

|                       |           |         |         |         |
|-----------------------|-----------|---------|---------|---------|
| -- Voice Products     | 525,002   | 473,328 | 525,002 | 492,983 |
| Telecommunications    |           |         |         |         |
| Services Revenue      | 848,364   | 791,347 | 848,364 | 923,690 |
| Installation and      |           |         |         |         |
| Maintenance Revenue   | 148,601   | 75,919  | 148,601 | 75,919  |
| Continuing Operations |           |         |         |         |
| Revenue               | 996,965   | 867,266 | 996,965 | 999,609 |
| SERVICE REVENUE:      |           |         |         |         |
| Telecommunications    |           |         |         |         |
| Services Service      |           |         |         |         |
| Revenue -- Data       |           |         |         |         |
| Products              | 281,155   | 97,774  | 281,155 | 210,462 |
| Telecommunications    |           |         |         |         |
| Services Service      |           |         |         |         |
| Revenue -- Voice      |           |         |         |         |
| Products              | 525,002   | 473,328 | 525,002 | 492,983 |
| Telecommunications    |           |         |         |         |
| Services Service      |           |         |         |         |
| Revenue               | 806,157   | 571,102 | 806,157 | 703,445 |
| Continuing Operations |           |         |         |         |
| Service Revenue       | 954,758   | 647,021 | 954,758 | 779,364 |
| Selected Financial    |           |         |         |         |
| Information:          |           |         |         |         |
| Recurring Adjusted    |           |         |         |         |
| EBITDA:               |           |         |         |         |
| TELECOMMUNICATIONS    |           |         |         |         |
| SERVICES              | 395,759   | 215,614 | 395,759 | 289,737 |
| INSTALLATION &        |           |         |         |         |
| MAINTENANCE           | 22,702    | 20,540  | 22,702  | 20,540  |
| CONTINUING OPERATIONS | 418,461   | 236,154 | 418,461 | 310,277 |
| Cash Paid For Capital |           |         |         |         |
| Expenditures:         |           |         |         |         |
| TELECOMMUNICATIONS    |           |         |         |         |
| SERVICES              | 1,695,898 | 506,729 |         |         |
| INSTALLATION &        |           |         |         |         |
| MAINTENANCE           | 38,544    | 34,828  |         |         |
| CONTINUING            |           |         |         |         |
| OPERATIONS            | 1,734,442 | 541,557 |         |         |
| Discontinued          |           |         |         |         |
| Operations:           |           |         |         |         |
| REVENUE               | 234,881   | 211,152 | 234,881 | 211,152 |
| RECURRING ADJUSTED    |           |         |         |         |
| EBITDA                | 51,976    | 89,327  | 51,976  | 89,327  |
| CASH PAID FOR CAPITAL |           |         |         |         |
| EXPENDITURES          | 253,344   | 101,022 |         |         |

(a) The Reported amounts in the table above reflect the Company's quarterly results for continuing operations for the three months ended December 31, 2000 and December 31, 1999. Results for the three months ended December 31, 1999 include the results of Racal from November 24, 1999.

(b) The Pro forma amounts in the table above reflect, for both periods presented, the Company's acquisitions of Racal, Hutchison **Global Crossing** and IPC/IXnet and the dispositions of both the ILEC and GlobalCenter, as if each had occurred on January 1, 1999.

**GLOBAL CROSSING LTD. AND SUBSIDIARIES**  
**SELECTED FINANCIAL INFORMATION**  
(Unaudited)  
(In thousands)

|                       | Reported (a)     |                  | Pro forma (b)    |                  |
|-----------------------|------------------|------------------|------------------|------------------|
|                       | Years Ended      |                  | Years Ended      |                  |
|                       | Dec. 31,<br>2000 | Dec. 31,<br>1999 | Dec. 31,<br>2000 | Dec. 31,<br>1999 |
| Revenue Summary:      |                  |                  |                  |                  |
| CASH REVENUE:         |                  |                  |                  |                  |
| Commercial            | 1,421,575        | 257,882          | 1,590,039        | 1,540,352        |
| Consumer              | 168,674          | 48,189           | 168,674          | 193,789          |
| Carrier               | 3,110,014        | 1,139,681        | 3,110,014        | 1,839,754        |
| Telecommunications    |                  |                  |                  |                  |
| Services Cash Revenue | 4,700,263        | 1,445,752        | 4,868,727        | 3,573,895        |
| Telecommunications    |                  |                  |                  |                  |
| Services Cash Revenue |                  |                  |                  |                  |
| -- Data Products      | 2,626,864        | 972,424          | 2,795,328        | 1,668,314        |
| Telecommunications    |                  |                  |                  |                  |
| Services Cash Revenue |                  |                  |                  |                  |
| -- Voice Products     | 2,073,399        | 473,328          | 2,073,399        | 1,905,581        |
| Telecommunications    |                  |                  |                  |                  |
| Services Cash Revenue | 4,700,263        | 1,445,752        | 4,868,727        | 3,573,895        |
| Installation and      |                  |                  |                  |                  |
| Maintenance Cash      |                  |                  |                  |                  |
| Revenue               | 460,003          | 165,731          | 460,003          | 339,229          |
| Continuing Operations |                  |                  |                  |                  |
| Cash Revenue          | 5,160,266        | 1,611,483        | 5,328,730        | 3,913,124        |
| REVENUE:              |                  |                  |                  |                  |
| Commercial            | 1,421,575        | 257,882          | 1,590,039        | 1,540,352        |
| Consumer              | 168,674          | 48,189           | 168,674          | 193,789          |
| Carrier:              |                  |                  |                  |                  |
| Service Revenue       | 1,361,043        | 289,143          | 1,361,043        | 957,866          |
| Sales Type Lease      |                  |                  |                  |                  |
| Revenue               | 349,603          | 727,644          | 349,603          | 727,643          |
| Amortization of       |                  |                  |                  |                  |
| prior period IRUs     | 28,281           | 7,313            | 28,281           | 7,313            |
| Carrier               | 1,738,927        | 1,024,100        | 1,738,927        | 1,692,822        |
| Telecommunications    |                  |                  |                  |                  |
| Services Revenue      | 3,329,176        | 1,330,171        | 3,497,640        | 3,426,963        |
| Telecommunications    |                  |                  |                  |                  |
| Services Revenue      |                  |                  |                  |                  |
| -- Data Products      | 1,255,777        | 856,843          | 1,424,241        | 1,521,382        |
| Telecommunications    |                  |                  |                  |                  |
| Services Revenue      |                  |                  |                  |                  |

|                       |           |           |           |           |
|-----------------------|-----------|-----------|-----------|-----------|
| -- Voice Products     | 2,073,399 | 473,328   | 2,073,399 | 1,905,581 |
| Telecommunications    |           |           |           |           |
| Services Revenue      | 3,329,176 | 1,330,171 | 3,497,640 | 3,426,963 |
| Installation and      |           |           |           |           |
| Maintenance Revenue   | 460,003   | 160,655   | 460,003   | 334,153   |
| Continuing Operations |           |           |           |           |
| Revenue               | 3,789,179 | 1,490,826 | 3,957,643 | 3,761,116 |
| SERVICE REVENUE:      |           |           |           |           |
| Telecommunications    |           |           |           |           |
| Services Service      |           |           |           |           |
| Revenue -- Data       |           |           |           |           |
| Products              | 877,893   | 121,886   | 1,046,357 | 786,426   |
| Telecommunications    |           |           |           |           |
| Services Service      |           |           |           |           |
| Revenue -- Voice      |           |           |           |           |
| Products              | 2,073,399 | 473,328   | 2,073,399 | 1,905,581 |
| Telecommunications    |           |           |           |           |
| Services Service      |           |           |           |           |
| Revenue               | 2,951,292 | 595,214   | 3,119,756 | 2,692,007 |
| Continuing Operations |           |           |           |           |
| Service Revenue       | 3,411,295 | 755,869   | 3,579,759 | 3,026,160 |
| Selected Financial    |           |           |           |           |
| Information:          |           |           |           |           |
| Recurring Adjusted    |           |           |           |           |
| EBITDA:               |           |           |           |           |
| TELECOMMUNICATIONS    |           |           |           |           |
| SERVICES              | 1,367,297 | 587,191   | 1,361,670 | 861,740   |
| INSTALLATION &        |           |           |           |           |
| MAINTENANCE           | 101,559   | 39,263    | 101,559   | 85,596    |
| CONTINUING            |           |           |           |           |
| OPERATIONS            | 1,468,856 | 626,454   | 1,463,229 | 947,336   |
| Cash Paid For Capital |           |           |           |           |
| Expenditures:         |           |           |           |           |
| TELECOMMUNICATIONS    |           |           |           |           |
| SERVICES              | 4,324,126 | 1,499,308 |           |           |
| INSTALLATION &        |           |           |           |           |
| MAINTENANCE           | 67,472    | 170,585   |           |           |
| CONTINUING            |           |           |           |           |
| OPERATIONS            | 4,391,598 | 1,669,893 |           |           |
| Discontinued          |           |           |           |           |
| Operations:           |           |           |           |           |
| REVENUE               | 935,747   | 211,152   | 935,747   | 808,313   |
| RECURRING ADJUSTED    |           |           |           |           |
| EBITDA                | 287,844   | 89,327    | 287,844   | 362,658   |
| CASH PAID FOR CAPITAL |           |           |           |           |
| EXPENDITURES          | 598,575   | 101,022   |           |           |

(a) The Reported amounts in the table above reflect the Company's annual results for continuing operations for the twelve months ended December 31, 2000 and December 31, 1999. Results for the twelve months ended December 31, 2000 include the results of IPC Communications and

IXnet from June 15, 2000 and Hutchison **Global Crossing** from January 12, 2000. Results for the twelve months ended December 31, 1999 include the results of Global Marine from July 2, 1999, Frontier from October 1, 1999 and Racal from November 24, 1999.

(b) The Pro forma amounts in the table above reflect, for both periods presented, the Company's acquisitions of Frontier, Global Marine, Racal, Hutchison **Global Crossing** and IPC/IXnet and the dispositions of both the ILEC and GlobalCenter, as if each had occurred on January 1, 1999. CONTACT: **Global Crossing** Ltd., Los Angeles  
Ken Simril, 310/385-5200 (analysts/investors)  
[investors@globalcrossing.com](mailto:investors@globalcrossing.com)  
Tom Goff, 310/385-5231 (media)  
[tgoff@globalcrossing.com](mailto:tgoff@globalcrossing.com)

or  
Sard Verbinnen, New York  
Kim Polan, 212/687-8080 (media)  
[kpolan@sardverb.com](mailto:kpolan@sardverb.com) URL: <http://www.businesswire.com>

LOAD-DATE: February 15, 2001

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**From:** Mohebbi, Afshin  
**Sent:** Tuesday, June 13, 2000 3:24 PM  
**To:** Boast, David  
**Subject:** RE: Pac West Q2 IRU Issues  
**Sensitivity:** Confidential

i know it is risky . i will take the fall for it!

-----Original Message-----  
**From:** Boast, David  
**Sent:** Tuesday, June 13, 2000 1:23 PM  
**To:** Mohebbi, Afshin  
**Subject:** RE: Pac West Q2 IRU Issues  
**Sensitivity:** Confidential

IF we could do this (which I'm not sure we can), then all we have to do is get audited, get caught and get screwed!

Dave

-----Original Message-----  
**From:** Mohebbi, Afshin  
**Sent:** Tuesday, June 13, 2000 1:20 PM  
**To:** Boast, David  
**Cc:** Felix, William  
**Subject:** RE: Pac West Q2 IRU Issues  
**Sensitivity:** Confidential

what if we mis-route the IRU and then route it as it is suppose to?

afshin

-----Original Message-----  
**From:** Boast, David  
**Sent:** Tuesday, June 13, 2000 12:28 PM  
**To:** Mohebbi, Afshin  
**Cc:** Felix, William  
**Subject:** RE: Pac West Q2 IRU Issues  
**Sensitivity:** Confidential

Afshin,

We agreed at the time of the Touch America card allocation that we would not be able to do both this IRU and Touch America. This is not a challenge - it is impossible and we shouldn't spend any time at all on this or we could jeopardize our other activities (Z71 & Q2). Let's get sales to find other IRU opportunities.

Dave

-----Original Message-----  
**From:** Mohebbi, Afshin  
**Sent:** Tuesday, June 13, 2000 12:18 PM  
**To:** Felix, William  
**Cc:** Boast, David; Perusse, Mike; Becker, Jim  
**Subject:** RE: Pac West Q2 IRU Issues  
**Sensitivity:** Confidential

i appreciate the challenge here bill but other deals are falling thru; i need this one for sure

afshin

-----Original Message-----  
**From:** Felix, William  
**Sent:** Tuesday, June 13, 2000 9:52 AM  
**To:** Mohebbi, Afshin  
**Cc:** Boast, David; Perusse, Mike; Becker, Jim  
**Subject:** RE: Pac West Q2 IRU Issues  
**Sensitivity:** Confidential

Sir,

We're re-checking all other options, but I'm not currently aware of a way to make all of this happen in 2Q:

- With variations in what the customer is looking for, we've been aware of the basic requirements here for 6+ months. The CA mid-valley component of this requirement set (Sacramento-Stockton-Fresno-Bakersfield-LA) has been designed into the G201 (not 102) ring.
- Unfortunately, the cards needed for critical sections of this ring also matched what TouchAmerica needed to complete their northern route, and were given to them (mentioned the risk to this IRU to both Dave and you at the time).
- We get the cards back on 7/15, and (per standard intervals) complete testing and turn-up on 8/21.

In the meantime, will work with Mike/his team on the other constraints mentions below/any other options for parts of this requirement set and report back by COB Wednesday.

Regards,

Bill

-----Original Message-----

From: Mohebbi, Afshin  
Sent: Sunday, June 11, 2000 4:53 PM  
To: Felix, William  
Subject: FW: Pac West Q2 IRU Issues  
Importance: High  
Sensitivity: Confidential

Bill:

i need this thing to make the quarter.

thanks for your support

Afshin

-----Original Message-----

From: Casey, Greg  
Sent: Sunday, June 11, 2000 4:27 PM  
To: Mohebbi, Afshin  
Cc: Petrie, Deb  
Subject: FW: Pac West Q2 IRU Issues  
Importance: High  
Sensitivity: Confidential

we need a push from the boss

-----Original Message-----

From: Petrie, Deb  
Sent: Sunday, June 11, 2000 3:54 PM  
To: Walker, Raylene; Casey, Greg  
Cc: Dalton, Joe/Bischoff, Britt; Felix, William; Peterson, Jon; Welch, Pat  
Subject: FW: Pac West Q2 IRU Issues  
Importance: High  
Sensitivity: Confidential

Greg, per your request, here is the update on pac west and the capacity constraints...

I talked to felix on friday, he said that Ray should be able to get the necessary changes to accomodate issues #1 & #2 below. however, the ring itself was scheduled to go on the G102 ring which is not scheduled for completion until 8/21. bill thought this might be able to be pulled into july but not june.

-----Original Message-----

From: Welch, Pat  
Sent: Friday, June 09, 2000 3:10 PM  
To: Petrie, Deb  
Subject: Pac West Q2 IRU Issues

Capacity Planning has brought a couple of issues to my attention concerning Pac West's Q2 IRU Routes. These issues are severe enough to possibly hinder this opportunity from happening this quarter.

The current negotiations with Pac West is for 9 OC48 routes in California that touch the following 8 POP's: Sacramento, Oakland, Salinas, San Luis Obispo, Santa Barbara, Los Angeles, Bakersfield, Fresno, and Stockton. This is currently worth approx \$22.2 without estimated costs of building to 3 of Pac West's sites directly. (Oakland, Los Angeles & Stockton) Here are the issues:

1. In Bakersfield and Fresno we currently have Regin's at those POP's and to be able to handle OC48 capacity we would need to put in an ADM. I have been informed that this issue could be escalated to the powers that be to get this completed by the end of June.

2. The Stockton POP is a "glass through" POP. Meaning fiber only passes through that POP. There is not any equipment at that POP to break down capacity. This POP would need to have equipment installed (ADM) to break down the network so we could take it to Pac West's site in Stockton. We would also have to install fiber to take the OC48 from our POP in Stockton to Pac West's site

Pat Welch  
Wholesale Markets  
Work (303) 992-1438  
Fax (303) 992-1776  
E-Mail Pat.Welch@Qwest.com

## QWEST COMMUNICATIONS INTERNATIONAL INC.

## Audit Committee of the Board of Directors

October 4, 2000

A meeting of the Audit Committee of the Board of Directors (the "Committee") of Qwest Communications International Inc. (the "Corporation") was held Wednesday, October 4, 2000, commencing at 1:45 P.M. (Denver time) in the Corporation's Board Room, 1801 California, 52<sup>nd</sup> Floor, Denver, Colorado 80202.

Present: Committee members L.G. Alvarado, P.S. Hellman, V. Khosla and W.T. Stephens; Mr. Stephens presiding. Also present: R.S. Woodruff, Executive Vice President - Finance and Chief Financial Officer of the Corporation; O.X. Munoz, Senior Vice President - Finance of Qwest Communications Corporation ("QCC"), M. Link, Vice President and Controller of Finance of QCC; R. Noles, Vice President - Internal Audit of QCC; S. Berman, Assistant Treasurer of QCC, Y.A. Rana, Associate General Counsel and Assistant Secretary of the Corporation, and M. Iwan of Arthur Andersen, LLP ("Andersen"), the Corporation's auditors.

Mr. Woodruff stated that he had distributed to the Committee in advance a binder containing pre-reading materials, which is attached to these minutes as Exhibit A. At Mr. Woodruff's request, Mr. Noles led a discussion regarding the Corporation's internal audit group, including its organization, staffing, audit approach and audit plan development.

Mr. Link led a discussion regarding significant accounting policies and disclosures. Mr. Link then reviewed certain as merger accounting and related one-time charges. The Committee asked Mr. Woodruff to consider taking one-time charges for in connection with writing down certain of the Corporation's telephony assets.

Mr. Berman led a discussion regarding investment dispositions and recent debt transactions. Mr. Woodruff stated that the Corporation could incur additional indebtedness of between \$1 billion and \$1.5 billion without negatively affecting its credit rating.

Mr. Woodruff reviewed with the Committee proposed meeting dates and tentative earnings release telephonic committee meeting dates. At Mr. Khosla's request, the Committee agreed to hold its next meeting at 8:30 A.M. (Denver time) on October 23, 2000.

Mr. Iwan distributed a document to the Committee entitled "Audit Committee Meeting - October 4, 2000", which is attached to these minutes as Exhibit B. Mr. Iwan led a discussion on significant financial reporting risks, including purchase accounting and one-time and merger-related charges.

QECX000966

Mr. Iwan also reviewed with the Committee Andersen's audit and non-audit fees for 2000 year to date and estimated 2000 audit fees of \$910,000 for the Corporation and \$410,000 for Qwest Corporation. In response to a question, Mr. Woodruff and Mr. Link stated that the Corporation would take a one-time charge in the third quarter of 2000 in connection with the proposed settlements of certain lawsuits brought against U S WEST, Inc.

The Committee met in separate executive sessions with Mr. Iwan and Mr. Noles.

The Committee met in an executive session.

Upon motion duly made and seconded, the meeting was adjourned at 2:30 P.M. (Denver time).

  
\_\_\_\_\_  
For the Committee

QECX000967

ARTHUR ANDERSEN

Assurance

Qwest Communications  
International Inc.  
Audit Committee Meeting



October 4, 2000

## 2000 Key Financial Reporting Risks

### Purchase Accounting (Classic Qwest)

- Goodwill and Intangible lives (including KPNQwest)

The SEC has been scrutinizing the lives assigned to acquired intangibles and goodwill

- Purchase accounting reserves

Accruals for future costs limited to incremental, direct costs that provide no future benefit

### Restructuring and Impairment Charges (Classic U S WEST)

- Exit costs (SAB 100)

SEC emphasis on no future benefit to the Company and no future revenue generation from the activity

- Impairment (FASB 121)

SEC emphasis on current ability to remove assets from operations

QECX000

Qwest

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## 2000 Key Financial Reporting Risks (Cont'd)

### Indefeasible Rights of Use (IRUs)

- Up-front revenue recognition
- Non-monetary exchanges
- Counterparty credit risk
- Multiple-element contracts

SEC vigorously challenging sales treatment

Fair value accounting from swapping IRUs for other assets or services may be viewed as not the culmination of the earnings process

Exposed to concentrations of credit risk from counterparties (e.g., ICG, KMC), particularly on non-monetary exchanges

Allocating value to ROW, conduit, fiber, electronics and O&M subjective

### Revenue Recognition

- SAB 101

Must be a distinct earnings stream and services must have been rendered (e.g., installation fee versus phone service)

### Segment Reporting

- FASB 131

Need to revisit segments post-acquisition

### Adequacy of reserves

Evergreen issue

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QECX0009



## 2000 Proposed Fees

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Proposed fees of \$910,000 for the fiscal 2000 consolidated audit of Qwest

ARMIS Report 43-03 (common cost allocation audit) fees of \$410,000

Combined attest fees for both companies were \$2.2 million from October 1, 1999 to July 31, 2000

Reduction principally due to merger synergies

887

QECX00099

Qwest

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From: Mohebbi, Afshin  
Sent: Friday, December 29, 2000 3:53 PM  
To: 'nick.jeffery@cwcom.co.uk'  
Cc: 'ian.coe@cwusa.com'

Dear Nick,

Qwest understands your concerns regarding the language in the side letter 'as agreed upon by the parties'. This email is intended to assure you that, in accordance with Qwest's past practice, Qwest will honor the understanding and intention of the parties with regard to any request by Cable & Wireless to obtain a full and fair trade of the capacity in Exhibit A of the IRU Agreement for OC-192 wavelength capacity.

Qwest guarantees that should Cable & Wireless request such a trade prior to 31 December 2001, then Qwest shall provide such capacity, which shall be upon the following pricing:

1st wavelength route \$0.050 per DSO route mile  
2nd wavelength route \$0.019 per DSO route mile  
3rd wavelength route \$0.019 per DSO route mile  
4th wavelength route \$0.019 per DSO route mile  
5th wavelength route \$0.019 per DSO route mile.

Please contact me at (303)992-6000 if you have any further concerns.

Best regards,

Afshin Mohebbi

President & COO

Qwest Communications Intl.

QEC 203

## QWEST COMMUNICATIONS INTERNATIONAL INC.

## Audit Committee of the Board of Directors

October 29, 2001

A telephonic meeting of the Audit Committee of the Board of Directors (the "Committee") of Qwest Communications International Inc. (the "Corporation") was held Monday, October 29, 2001, commencing at 1:05 P.M. (Denver time).

Present: L.G. Alvarado, J.L. Haines, P.S. Hellman and W.T. Stephens; Mr. Stephens presiding. Also present: R.R. Szeliga, Executive Vice President – Finance and Chief Financial Officer of the Corporation; R. Noles, Vice President – Internal Audit of Qwest Services Corporation ("QSC"), Y.A. Rana, Vice President, Senior Associate General Counsel and Assistant Secretary of the Corporation, M. Schumacher, Vice President and Controller of QSC; and M. Iwan of Andersen LLP ("Andersen"), the Corporation's auditors.

Ms. Szeliga led a discussion regarding the accounting for certain transactions in prior periods. Ms. Szeliga informed the Committee none of the Corporation's Finance Department, Andersen and she herself had been aware of certain terms of the transactions during the periods in which they occurred. Ms. Szeliga told the Committee that, based upon, among other things, the fact that each of the Corporation's Finance Department, Andersen and she herself were previously unaware of certain terms of the transactions, and upon the size of the transactions, it was her view that the Corporation did not need to take any action with respect to accounting or financial reporting for those transactions. Mr. Iwan stated that Andersen agreed with Ms. Szeliga's view of the same. Ms. Szeliga also informed the Committee that she had discussed the matter with J.P. Nacchio, Chairman and Chief Executive Officer of the Corporation and D.S. Tempest, Executive Vice President, General Counsel, Chief Administrative Officer and Secretary of the Corporation, including her assessment of the matters and the reasons for the same, and that Mr. Nacchio and Mr. Tempest were comfortable with Ms. Szeliga's assessment. The Committee was comfortable with the recommendations and positions taken by management based upon, among other things, the recommendations and discussions with Ms. Szeliga and Mr. Iwan.

The Committee requested that management perform a thorough review of its relevant policies and procedures and report back to the Committee at the next meeting.

Upon motion duly made and seconded, the meeting was adjourned at 2:15 P.M. (Denver time).

  
For the Committee

QECX001178

From: Mohebbi, Afshin  
 Sent: Friday, February 09, 2001 10:23 AM  
 To: Casey, Greg  
 Subject: RE: Q1 IRU Forecast

bless you my man!!!!!!

we probably will eat all of this and then some

Afshin

-----Original Message-----

From: Casey, Greg  
 Sent: Friday, February 09, 2001 9:59 AM  
 To: Mohebbi, Afshin  
 Subject: FW: Q1 IRU Forecast  
 Importance: High

this doesnt include regulated irus and some more international

-----Original Message-----

From: Dalton, Joe  
 Sent: Friday, February 09, 2001 8:33 AM  
 To: Casey, Greg  
 Subject: Q1 IRU Forecast

|                            |               |    |
|----------------------------|---------------|----|
| C&W (Move)                 | \$197,568     |    |
| C&W                        | \$50,000,000  |    |
| Global Crossing            | \$25,000,000  |    |
| Global Crossing Wavelength | \$13,878,983  | Q4 |
| Singapore Telecom          | \$6,590,454   | Q4 |
| Winstar                    | \$15,000,000  |    |
| MFN                        | \$9,376,000   |    |
| Inlira                     | \$20,849,472  |    |
| Tenn Indep. Telecom Grp    | \$6,451,200   |    |
| Telstra                    | \$3,900,000   |    |
| Alltel                     | \$10,000,000  |    |
| Teleglobe                  | \$50,000,000  |    |
| Total                      | \$211,241,000 |    |

Joseph L. Dalton  
 Vice President Worldwide Wholesale Markets  
 Office: 847-405-5580  
 Email: joe.dalton@qwest.com

From: Mohebbi, Afshin  
 To: Casey, Greg  
 Subject: RE: Non-monetary transactions.  
 Date: 05/10/2001 06:40:03 PM EST

we go t to get to the bottom of this thing fast work wiht the master, mr. eveleth

-----Original Message-----  
 From: Casey, Greg  
 Sent: Thursday, May 10, 2001 4:14 PM  
 To: Mohebbi, Afshin  
 Subject: FW: Non-monetary transactions.  
 Importance: High

fyi-along the lines of our previous discussion

-----Original Message-----  
 From: Dalton, Joe  
 Sent: Thursday, May 10, 2001 4:11 PM  
 To: Casey, Greg  
 Subject: FW: Non-monetary transactions.

FYI - I've got a call into Matthew for clarification.

-----Original Message-----  
 From: Scott, Matthew  
 Sent: Thursday, May 10, 2001 3:58 PM  
 To: Dalton, Joe/Bischoff, Britt  
 Subject: Non-monetary transactions.

FYI:

Our CFO made a statement this morning that "there can be no non-monetary transaction of any significance, ever again". This mean any deal, even when wires are exchanged, were Qwest purchases roughly similar amounts from a vendor that we have sold an IRU to. Her concerns are that the auditors have stated that we will need to disclose those in our financial releases, and that disclosure will be expanded to show the total scope and volume of all IRU transactions. She will not allow that to happen.

I know this will be discussed at the weekly meetings.

Qwest Communications  
 Matthew.Scott@Qwest.com  
 Director of Finance  
 Strategic Transactions  
 555 17th Street, 3rd Floor  
 Denver, CO 80202

Office & Fax (303) 992-3263  
 Mobile (877) FON-MATT  
 ePager (877) 419-2475 or matthew\_scott@imcingular.com

From: Mohebbi, Afshin  
 To: Casey, Greg  
 CC: Eveleth, Bill  
 Subject: RE: april sales  
 Date: 05/14/2001 06:43:09 AM EST

dont count on a reset right now. i will talk to robin on the accounting rules.  
 bill is our guy in this area

afshin

-----Original Message-----

From: Casey, Greg  
 Sent: Sunday, May 13, 2001 9:28 PM  
 To: Mohebbi, Afshin  
 Subject: RE: april sales

I think robin said that we werent going to do any more deals where we pick up facilities at the same time somebody buys them from us. Our revenue looks pretty good; we should hit a billion in recurring, but we're going to have a hard time making the quarter if we cant do any more deals to expand our network as robin said. IRU's are becoming extremely difficult to do. Worldcom will happen at some level but if its not immediately bookable the quarter is in jeopardy. Dalton, Chase, Halverson, McKinney, Filip and Petrie are pulling out the stops and I'm proud of them but we dont do the accounting. Personally, my advice would be to reset expectations and put the best face on to wall street that we can. You have an opportunity with Jacobsen leaving to reposition this as a recurring revenue business and if you dont take it now and make it succinct, I think you run the risk of a feeding frenzy on the street.

-----Original Message-----

From: Mohebbi, Afshin  
 Sent: Saturday, May 12, 2001 5:40 PM  
 To: Casey, Greg  
 Subject: RE: april sales

mr. casey:

knowing what you know about this business, what do you think about the quarter?  
 can we make it. Business is in bad shape. they had a bad April so then need a  
 ton of one time items to make the quarter. we need the WCOM deal to cover most  
 of their gap. What do you think?

afshin

-----Original Message-----

From: Casey, Greg  
 Sent: Saturday, May 12, 2001 2:15 PM  
 To: Mohebbi, Afshin  
 Subject: RE: april sales

its a visible increase in cooperation from gilmore and weston

-----Original Message-----  
 From: Mohebbi, Afshin  
 Sent: Saturday, May 12, 2001 11:10 AM  
 To: Casey, Greg  
 Subject: RE: april sales

good. this ithing is really coming together after certain elements left thegame, huh?

-----Original Message-----  
 From: Casey, Greg  
 Sent: Saturday, May 12, 2001 9:14 AM  
 To: Mohebbi, Afshin  
 Subject: RE: april sales

weston was actually pretty helpful; he understands and supports the concept of msa's ala IBM and what we did with C&W.

-----Original Message-----  
 From: Mohebbi, Afshin  
 Sent: Saturday, May 12, 2001 8:54 AM  
 To: Casey, Greg  
 Subject: RE: april sales

no i will check back with my man eveleth

-----Original Message-----  
 From: Casey, Greg  
 Sent: Saturday, May 12, 2001 6:39 AM  
 To: Mohebbi, Afshin  
 Subject: RE: april sales

ip is picking up too. Did you get any feedback on the "life after IRU's" meeting?

-----Original Message-----  
 From: Mohebbi, Afshin  
 Sent: Friday, May 11, 2001 5:38 PM  
 To: Casey, Greg  
 Subject: RE: april sales

not bad mr. casey!

send my regards to your team please

afshin

-----Original Message-----  
 From: Casey, Greg  
 Sent: Thursday, May 10, 2001 10:24 PM  
 To: Mohebbi, Afshin  
 Subject: april sales



afshin my guys had a pretty strong recurring sales month in april. see below.  
greg

Rankings by Region 04/22/01-04/30/01  
Central Subtotal (Shearburn) \$791,398  
West Subtotal (Peterson) \$392,491  
Southwest Subtotal (Griffin) \$369,918  
Southeast Subtotal (Prante) \$298,831  
Northeast Subtotal (Rivera) \$160,613  
QWEST House Accounts \$22,932  
Joe Comer (Strategic) \$0  
Grand Total for Week \$2,036,183

Rankings by Region Apr-01  
Northeast Subtotal (Rivera) \$1,580,302  
Central Subtotal (Shearburn) \$1,485,470  
West Subtotal (Peterson) \$1,304,692  
Southeast Subtotal (Prante) \$1,018,295  
Southwest Subtotal (Griffin) \$715,618  
QWEST House Accounts \$111,576  
Joe Comer (Strategic) \$2,500  
Grand Total for the Month \$6,218,453 \*\*\*\*\*

YTD Rankings by Region 2001  
Northeast Subtotal (Rivera) 6,049,820  
Central Subtotal (Shearburn) 5,393,130  
West Subtotal (Peterson) 5,077,872  
Southwest Subtotal (Griffin) 4,980,722  
Southeast Subtotal (Prante) 4,031,828  
QWEST House Accounts 247,970  
Joe Comer (Strategic) 5,500  
Grand Total for the Year 25,786,843

From: Mohebbi, Afshin  
 To: Casey, Greg  
 Subject: RE: Q2 Revenue  
 Date: 06/11/2001 10:26:35 AM EST

yep need to get more out of him. you need to chat to him as well  
 are you going to be here today or the weather is still bad  
 afshin

-----Original Message-----  
 From: Casey, Greg  
 Sent: Monday, June 11, 2001 8:00 AM  
 To: Mohebbi, Afshin  
 Subject: RE: Q2 Revenue  
 thats it?

-----Original Message-----  
 From: Mohebbi, Afshin  
 Sent: Monday, June 11, 2001 7:10 AM  
 To: Casey, Greg  
 Subject: FW: Q2 Revenue  
 Importance: High

FYI;

Afshin

-----Original Message-----  
 From: Din, Mariyam On Behalf Of Lau, Ross  
 Sent: Sunday, June 10, 2001 10:05 PM  
 To: Mohebbi, Afshin  
 Subject: Q2 Revenue  
 Importance: High

Afshin,

In response to your email, the Q2 projects we are working on are:

1. China Netcom

This is a swap deal 2 STM-1 HK-LA for 1 STM-1 each HK-Shanghai and HK-Beijing.  
 Value = \$10M. We have reached agreement in principle. My team will be in  
 Beijing starting tomorrow for contract closure discussion.

Issue: Since HK-LA circuit will be derived from EAC-1 and PC-1, both of which  
 we obtained through a swap with Global Crossing, creative contractual wording

QEC 16571

and terms must be advised by Denver Finance and Legal groups in order for us to recognize the revenue.

2. World Com

World Com needs 4 STM-1 on EAC-1 for HK-Japan. This was part of the larger swap deal being worked by Wholesale. The latter is bogged down but they need the capacity for HK-Japan now. We are currently looking at a lease arrangement at \$160K/month with call options after 6 months for 15-yr IRU (\$6M) or 10-yr IRU (\$5M). As this arrangement will derive no revenue for us in Q2, I have asked the sales team to go back and see what will it take to do a cash deal this quarter. Chances are low since World Com has put an embargo on capex.

Regards,  
Ross

**Mohebbi, Afshin**

To: Casey, Greg  
Subject: RE: 2Q Deals

This is great. I think wholesale is kicking butt and I thanks everyone of your guys.

BUT I need a bit more to cover my holes elsewhere, whihc means if we get this and ENRON and WCOM we are home baby!!!!

Thanks again

Afshin

-----Original Message-----

From: Casey, Greg  
Sent: Wednesday, June 20, 2001 5:21 PM  
To: Mohebbi, Afshin  
Subject: FW: 2Q Deals  
Importance: High

986 recurring+220 IRU's =1206+enron@112+75 wcom tla CE

-----Original Message-----

From: Dalton, Joe (VP)  
Sent: Wednesday, June 20, 2001 5:15 PM  
To: Casey, Greg  
Subject: 2Q Deals  
Importance: High

Here are the Q2 totals:

|                |  |   |
|----------------|--|---|
| TyCom          | \$122M                                     | \$122M bookable in Q2 assuming we work out the accounting issues. |
| ✓ MFN          | \$14M                                      | Payment issues are being resolved.                                |
| Sprint         | \$1.2M (Ross) Backhaul in HK.              |   |
|                | \$2.5M (KPNQ) Backhaul on TAT14 in Europe. | May require a swap for IDDD minutes.                              |
| Emergia        | ????                                       | Still working.  |
| ✓ Progress Tel | \$1.4M                                     | Working out diverse wave plan DC-NY.                              |
| Global Xing    | \$73M                                      | Mix of Euro duct/DF/waves plus US wave                            |
| China Netcom   | \$6.7M (Ross)                              |   |
| Total:         | \$220.8M                                   |   |
| Joe            |  |   |

Joseph L. Dalton  
Vice President Sales  
Worldwide Wholesale Markets  
Office: 847-400-8580

*file 124  
accounting*

CONFIDENTIAL

Date: August 2, 2001  
 To: Greg Casey, Joel Arnold, Roger Houghund, Joe Dalton  
 cc: Afshin Mohebbi, Bill Eveleth, Mark Schumacher, Grant Graham  
 From: Robin Szeliga  
 RE: IRU Accounting - Some Rules of Engagement

With the recent issuance of new accounting standards that impact IRU accounting, an increase in "trade-in" or "upgrade" activity, an increase in "two-way" or "swap" transactions, and an increase in accounts receivable balances (and collection risk), I would like you to ensure that the policies and procedures set forth in this memo are implemented, effective immediately.

Accounting Change Related to Nominal Purchase Option in IRU Agreements

Effective July 19, 2001, a new accounting pronouncement changed the requirement for the nominal purchase option included within our IRU agreements. More specifically, the new pronouncement requires that the undivided ownership interest in the fiber transfer automatically as opposed to it being a nominal purchase option (i.e. \$1.00). Frank Noyes is working with legal to get the appropriate language change into our standard agreements immediately.

Upgrades

The original upgrade language that was introduced into Qwest's IRU agreements in 1999 was intended to allow the customer, upon mutual agreement between Qwest and the customer, to "upgrade" their capacity on a route(s) previously purchased as their bandwidth needs increased along the purchased routes.

The activity of "trading-in" circuits for circuits on different routes raises the question whether or not the earnings process was in fact complete as of the date of the original transaction and therefore will not be considered.

EFFECTIVE IMMEDIATELY, the following upgrade language will be the only acceptable language to be included in an IRU agreement:

"Upon mutual agreement of the parties, Customer may, upon thirty (30) days written notice provided to Qwest, be allowed to sell back on a one-time basis any IRU User Route set forth in Exhibit A in exchange for Customer's purchase, upon similar terms and conditions as those described herein (including term) of an IRU with greater bandwidth than the IRU sold and along the same User Route. In the event Customer wants to sell back a circuit for purposes of upgrading, the Qwest repurchase price will be for fair market value of the IRU User Route being purchased by Qwest as of the repurchase date. The IRU Fee applicable to the upgraded circuit(s) shall be provided by Qwest prior to Customer's purchase. All purchases of Capacity pursuant to this section are subject to availability."

Please note that both parties are agreeing that any upgrade will be at fair market value at the date of the upgrade. This does not mean what the customer originally paid, unless specific evidence is provided that indicates that this represents the current fair market value.

In addition to the foregoing, there will be no side letters or verbal commitments outside of the IRU agreement that conflict with the contractual upgrade language or specifically indicate that an upgrade will be agreed to. Note that we are required to provide representation to our auditors that no side letters or other verbal or written agreements exist between the parties.

With respect to agreements entered into previously (which contain the upgrade language with the option for purchasing capacity on different user routes), ANY purchase and resale of new capacity that falls outside the parameters of the "new" upgrade clause set forth above, will require my approval. Remember that the upgrade clause begins with "Upon mutual agreement of the parties..." and Qwest may not agree to certain upgrade activities.

#### Nonmonetary or "Two-way" Transactions

Over the past several quarters, Qwest has entered into a significant number of transactions in which Qwest purchases a similar (if not equal) value of products and services as those being sold by Qwest. Although I realize that economic conditions and strategic considerations are contributing factors to transactions of this nature, the following will be required prior to the execution of ANY transaction in which there is a buy-side:

- A detailed business case showing how the products/services being purchased will be monetized by Qwest. In addition, the "owner" of the purchased products/services must be identified (i.e. the one who will ensure that the purchase is monetized);
- Objective support for the fair market value of the products/services being purchased;
- Sign-off from capital budgeting as well as the executive whose capital budget is impacted by the purchase (if the purchase represents property/equipment);
- Approval by Robin Szeliga.

A more detailed nonmonetary transaction policy and procedure document is forthcoming (from Bill Eveleth's organization).

#### Accounts Receivable

In order to ensure adequate cash flow, control receivable levels and minimize bad debt exposure, the following payment terms will be the outside end of the range that Qwest will accept:

- 25% upon execution of the IRU agreement;
- The remainder within 12 months.

We should clearly attempt to get as much cash up-front as possible. The above position should represent the worst case/fall back position. Any proposed terms that are less favorable than those above will require the approval of Robin Szeliga.

The above discussion is not intended to be all-inclusive with respect to IRU issues, but rather a synopsis of some of the more significant issues currently facing the organization. Thank you for your cooperation.

From: Mohebbi, Afshin  
 Sent: Tuesday, September 25, 2001 4:21 PM  
 To: Casey, Greg  
 Subject: RE: IRU Updates for the quarter

thanks; how about 6 pm meeting my time with eveleth and others to see where we are on every deal?

afshin

-----Original Message-----

From: Casey, Greg  
 Sent: Tuesday, September 25, 2001 2:01 PM  
 To: Mohebbi, Afshin; Hansen, Steven Q; Dalton, Joe (VP); Petrie, Deb; Chase, Susan (Wholesale); Comer, Joe; Day, Donna C  
 Cc: Eveleth, Bill; Szeliga, Robin; Scott, Matthew; Noyes, Frank T  
 Subject: RE: IRU Updates for the quarter

deb your action greg

-----Original Message-----

From: Mohebbi, Afshin  
 Sent: Tuesday, September 25, 2001 1:55 PM  
 To: Hansen, Steven Q; Dalton, Joe (VP); Petrie, Deb; Chase, Susan (Wholesale); Comer, Joe; Day, Donna C  
 Cc: Casey, Greg; Eveleth, Bill; Szeliga, Robin; Scott, Matthew; Noyes, Frank T  
 Subject: RE: IRU Updates for the quarter

Team:

As we get close to closing deals, I need a one pager for every deal before we finalize it. The one pager should describe the deal what is being bought what is being sold; our margin, other party's margin, all other important information etc. One page only per deal. And I will need to make sure Joe and Robin see anything with a lot of value of more than 10m.

thanks

afshin

-----Original Message-----

From: Hansen, Steven Q  
 Sent: Monday, September 24, 2001 6:53 PM  
 To: Dalton, Joe (VP); Petrie, Deb; Chase, Susan (Wholesale); Comer, Joe; Day, Donna C  
 Cc: Casey, Greg; Eveleth, Bill; Szeliga, Robin; Mohebbi, Afshin; Scott, Matthew; Noyes, Frank T  
 Subject: IRU Updates for the quarter

All,

It is obvious that we are all scrambling to get closure on the deals being worked for IRUs. Several communications and request for updates are coming from various sources and are sometimes outdated when they reach others. I would ask that all updates regarding the status of IRUs that are going to corporate are coordinated through me such that the right and most current information can come from one source and one source only. This would direction would be for both giving and receiving information whether it be regarding status, inventory, revenue recognition, pricing, etc.

I believe this will help all know where we are at with the most up-to-date information. This may also help alleviate the frustration on lack of information as well as the right people are focused on closing the deal with the right information needed.

To date we are working on the following deals with regard to revenue recognition for 3Q:

Global Crossing, Tycom, Enron, C&W

There are some other potential deals but status of those are being determined as I write. I will give a complete detail of the status of these deals Tuesday morning once I receive feedback on some issues with Global Crossing and the latest information that Frank has been working with Enron. I will then update both verbally and through e-mails with any changes as they happen.

Hopefully this should keep everyone moving forward and in the loop as to the status of these deals.

**Steven Q. Hansen**  
*Vice President*  
*CFO - Wholesale Markets*  
Phone: 303-281-4543  
Cell: 720-312-7788



# CEO Evaluation Results

Board of Directors Meeting

September 13 – 14, 2001

*Qwest proprietary/confidential*

QECX004004

## CEO Evaluation

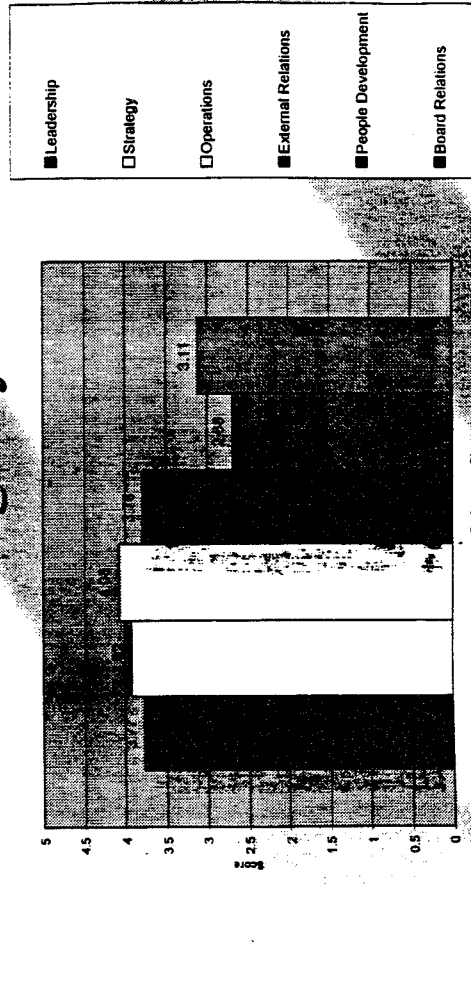
### Summary of Results

- Scores on most individual performance criteria and 6 dimensions show wide dispersion – some lack of consensus among Board members
- Key Strengths
  - Strong vision/performance driven culture and results
  - Leading in a growth environment
  - Reacting well to change
  - Pragmatic style
  - Qwest/US West integration
- Key Development Needs
  - Fostering legal and ethical conduct (make the numbers or else; accounting credibility issues)
  - Too short term oriented
  - Succession planning
  - Retention of top team/turnover
  - Keeping the Board fully informed, involved, utilized
  - Effectiveness of Board meetings

QECX004005

*Key Development to Foster Board discussion, feedback to CEO, and action plan*

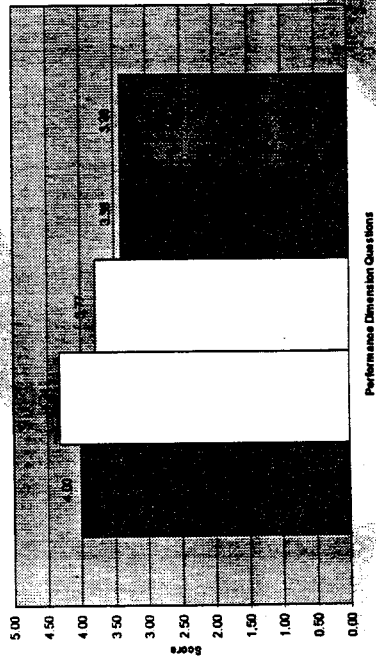
# Overall Ratings By Dimension



1 = Well below expectations  
 2 = Below expectations  
 3 = Meets expectations  
 4 = Above expectations  
 5 = Well above expectations

3

# Leadership



- 1 = Well below expectations
- 2 = Below expectations
- 3 = Meets expectations
- 4 = Above expectations
- 5 = Well above expectations

QECX004007

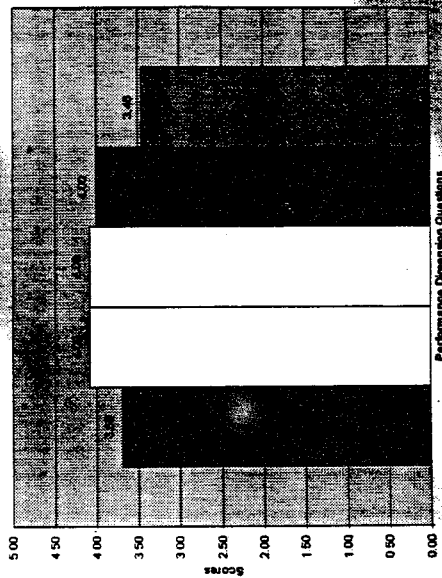
4  
No significant disparity between Board Members in high to low scores

# Leadership Comments

- Joe has done a good job in a growth environment. He must demonstrate leadership skills and a steady hand throughout the business cycle.
- Good job moving US West employees.
- Strong vision, super goy teller, attracts capable, high energy people.
- Bringing together two very different organizations has been challenging. Change, while at times stressful to employees, needed to happen rapidly. Joe demonstrated strong leadership in managing this process.
- Outstanding communicator but appears to be a one man band.
- Qwest needs a team working closely to succeed.
- Unable to convince the street.
- I am concerned that the one at the top does not balance the culture of "make the numbers or else."
- Highly emotional leader, can tire or confuse the troops at times.
- Must deal with the accounting credibility issue more effectively.
- Lower parts of the organization are getting mixed messages.

QECX004008

# Strategy



- 1 = Well below expectations
- 2 = Below expectations
- 3 = Meets expectations
- 4 = Above expectations
- 5 = Well above expectations

QECX004009

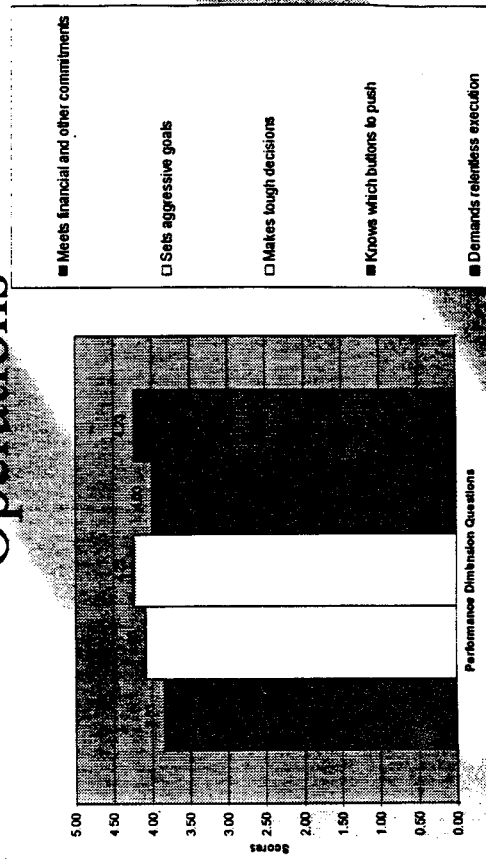
6  
 ... between Board Members in high to low scores.

## Strategy Comments

- Perhaps the best creative mind in the industry.
- Figures out how to make it happen.
- Driven to top the competition.
- Good job on long distance.
- Rather than "shaping the future," Joe reacts well to change.
- Actions seem more reactive than proactive.
- In a rapidly changing industry and flattening economy, the strategic vision needs to be refined and appropriately communicated to the Board, Wall Street, Qwest employees and shareholders in ways each can understand and embrace.
- Needs to articulate strategy to move Q from industry morass to clear leadership that investors see as a winner of the end game.
- Must pace himself — this is a long race.

QECX004010

# Operations



- 1 = Well below expectations
- 2 = Below expectations
- 3 = Meets expectations
- 4 = Above expectations
- 5 = Well above expectations

QECX004011

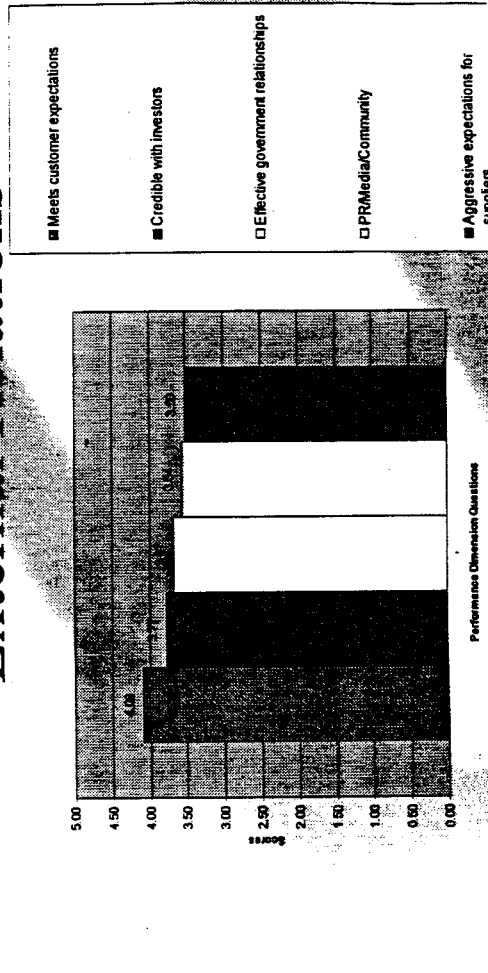


## Operations Comments

- Sets high targets and pushes people to meet them.
- Surrounds himself with a tough competitive staff.
- The job of creating a culture committed to long-term shareholder value creation rather than the quick return is challenging.
- As Qwest grows, trade-offs will have to be made between long and short term financial performance. (Joe is short term oriented)
- Not enough knowledge to comment on whether he meets financial and other commitments.
- Too many external factors to accurately determine if he meets financial and other commitments.

QECX004012

# External Relations



1 = Well below expectations  
 2 = Below expectations  
 3 = Meets expectations  
 4 = Above expectations  
 5 = Very above expectations

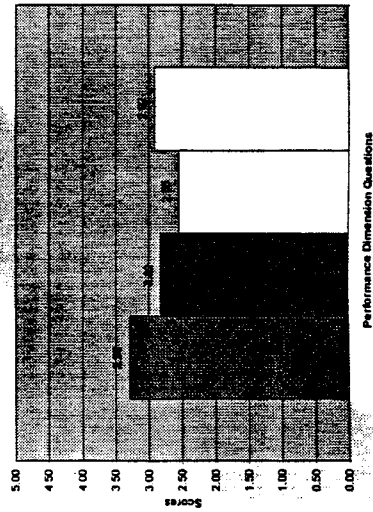
10

## External Relations Comments

- Good service focus.
- Good pragmatic style.
- Fixed the US West customer problem.
- Service metrics have certainly improved, hopefully this and other initiatives can continue to build in many other areas, as well as increase credibility, and support for Qwest's business strategies.
- Good with investors and community, must be careful to cultivate good personal relationships with street and press – he has no choice – it's key to the future.
- Credibility with investors – will be real test going forward now that merger honeymoon is over.
- Under promising and over delivering is a quality many great leaders rely on to earn respect in the marketplace. Joe has not yet ascribed to this philosophy.
- Needs to reshape investor relations relationships.
- Cracks in credibility with investors damage value of the company.
- Needs to reestablish credibility with the market.
- After a good start, has fallen back to old US West image.
- Could do more in the community.
- No way to know if he meets or exceeds customer expectations.
- Don't know how to answer "sets aggressive expectations for suppliers."
- Don't know how to answer questions about relationships with government or re: suppliers.

QECX004014

# People Development



- 1 = Well below expectations
- 2 = Below expectations
- 3 = Meets expectations
- 4 = Above expectations
- 5 = Well above expectations

QECX004015

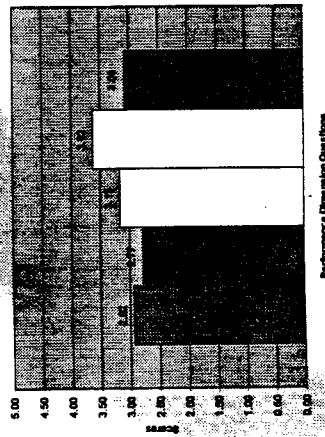
12

## People Development Comments

- Senior leadership team is built!
- Joe is clearly building a new kind of team and recognizes that retaining them will be a key to success. I am aware this is a work in progress.
- Building a strong leadership team has been a work in progress.
- Attracts excellent senior staff but may not let them have enough responsibility and credit to the Board.
- Seems to be a good recruiter, haven't seen the process involved – stock as retention tool seems routine.
- Joe dominates leadership – ad hoc approach.
- Haven't seen a succession plan to ensure bench strength or CEO succession.
- No evidence of a plan to ensure bench strength or CEO succession.
- No review with the Board re: a succession plan to ensure bench strength or CEO succession.
- Board needs to have greater exposure to leadership team to properly judge its strength.
- Bench strength and succession planning discussions are worthy topics for in-depth discussion at the board retreat, as these may assist or hinder appropriate implementation and execution of business objectives.
- No evidence of a plan to ensure bench strength or CEO succession.
- Needs more of a management development plan for key Executives.
- Needs deeper metrics to run the company on.
- Needs to nurture more of a team spirit (would be helpful if the Comp. Committee used this as a goal in designing comp both for the CEO and other Execs.)
- High management turnover.
- Haven't seen a process for recruitment, training, development, diversity, compensation, commitment and retention.
- Concerned about a plan for recruitment etc.
- Seen as focused on self rather than team.
- This is a weak area for Joe. Loyalty seems to be rewarded on an equal basis with performance and this means that loyal people are retained will past their usefulness to the company. He needs to reward the top performers and get rid of the laggards (even if they are friends, or worse yet sycophants).

QECX004016

# Board Relations



- 1 = Well below expectations
- 2 = Below expectations
- 3 = Meets expectations
- 4 = Above expectations
- 5 = Well above expectations

QECX004017

NOTE: Wide disparity between Board Members in high to low scores

## Board Relations Comments

- He is improving his connections with the Board and committees.
- Qwest and the Board are making progress in defining and implementing governance policies. A formalization of more specific reporting calendar of financial and operational issues, which need to be reviewed by the Board and the Board committees, may enable members to receive appropriate information in a timely manner to evaluate for better decision making. It would be a good idea to revisit Board meeting dates due to conflicts with Board member's schedules.
- He is our horse and we all need his leadership.
- He has a fear of failure that drives to high achievement and quick response to Board recommendations.
- Joe is clearly in the process of defining the role of the Board.
- Board of Directors meetings feel pretty casual.
- Information flow to Board feels pretty light for difficult times.
- Is the Board to be a strategic sounding board or simply a vehicle for corporate governance?
- Technology committee yet to get along.
- Information flows to the Board have been haphazard.
- His behavior would indicate that he sees the Board as a necessary evil.
- In the past year, I can't remember an occasion where the Board's input was sought on a strategic issue.
- Too many recommendations and proposals put together the night before the meeting.
- The compensation committee needs to coach him on the soft stuff and get the best from him on the hard issues.
- Extremely poor information flow compared to other Boards -- does not meet minimum standards.
- Board meetings are inefficient, poorly organized, and rambling.
- Board does not participate until after the fact.
- Board is not utilized and not in a position to contribute nor perform basic governance responsibilities.

QECX004018

QWEST COMMUNICATIONS INTERNATIONAL INC.

Compensation Committee of the Board of Directors

September 14, 2001

A telephonic meeting of the Compensation Committee of the Board of Directors (the "Committee") of Qwest Communications International Inc. (the "Corporation") was held Friday, September 14, 2001, commencing at 9:00 A.M. (Denver time).

Present: Committee members P.F. Anschutz, T.J. Donohue, J.L. Haines, M.C. Nelson, F.P. Popoff and C.D. Slater; Mr. Popoff presiding. Also present: J.P. Nacchio, Chairman and Chief Executive Officer of the Corporation, I.V. Ziskin, Executive Vice President and Chief Human Resources Officer of Qwest Services Corporation, and Y.A. Rana, Vice President, Senior Associate General Counsel and Assistant Secretary of the Corporation.

The Committee dispensed with the reading of the minutes of the meeting on July 25, 2001, and such minutes were approved.

Mr. Popoff confirmed that the members of the Committee had received the materials distributed in advance of the meeting.

Mr. Nacchio led a discussion regarding management's proposal to retain certain senior executives and reviewed with the Committee a document entitled "Executive Retention Strategies", which had been previously distributed to the Committee and is attached as Exhibit A.

The Committee asked questions of management and expressed their views regarding several different options.

Mr. Popoff and Mr. Slater led a discussion regarding the recommendations of SCA Consulting, a compensation consulting firm retained on behalf of the Board, and reviewed with the Committee a document entitled "Recommended Retention Framework - Report to Compensation Committee", which had been previously distributed to the Committee and is attached as Exhibit B.

Mr. Nacchio led a discussion regarding the quarterly bonus plan and certain proposed modifications to the plan. The Committee approved the proposed changes in the calculation of the bonus as proposed. Mr. Nacchio noted that he had intended to discuss certain other changes to the Corporation's quarterly bonus plan. However, in view of the Corporation's announcement on September 10, 2001, modifying its financial guidance, and the terrorist attacks on September 11, 2001, and the resulting economic uncertainties, he recommended that the Committee not approve any specific



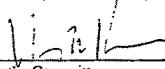
compensation targets, but instead review the results of the Corporation when available and determine the appropriate bonus payout level at that time. The Committee agreed with Mr. Nacchio's recommendation.

Mr. Nacchio led a discussion regarding retention strategies for employees other than the senior executives discussed above. Members of the Committee expressed their initial views on the matter. Mr. Popoff requested the Committee members to contact Mr. Ziskin with any suggestions on the matter.

The Committee met in executive session during which, among other things, it approved management's recommendations for retaining selected senior executives listed in Exhibit A.

In accordance with the charters of the Compensation Committee and the Equity Incentive Plan Committee, any action taken with respect to stock options was taken by the Equity Incentive Plan Committee.

Upon motion duly made and seconded, the meeting was adjourned at 11:00 A.M.

  
\_\_\_\_\_  
For the Committee

## QWEST COMMUNICATIONS INTERNATIONAL INC.

## Board of Directors

September 19, 2001

A special telephonic meeting of the Board of Directors (the "Board") of Qwest Communications International Inc. (the "Corporation") was convened Wednesday, September 19, 2001, commencing at 9:05 A.M. (Denver time).

Present: Directors P.F. Anschutz, J.P. Nacchio, L.G. Alvarado, C.R. Barrett, H. Brown, T.J. Donohue, J.L. Rainsa, C.Y. Harvey, P.S. Holliman, V. Khosla, M. Nelson, F.P. Popoff, C.D. Slater and W.T. Stephens; Mr. Anschutz presiding. Also present for the entire meeting: D.S. Tempest, Executive Vice President, General Counsel, Chief Administrative Officer and Secretary of the Corporation, E.R. Szeliga, Executive Vice President and Chief Financial Officer of the Corporation, and Y.A. Rana, Vice President, Senior Associate General Counsel and Assistant Secretary of the Corporation. Present for a portion of the meeting: A. Mohabbi, President and Chief Operation Officer of Qwest Services Corporation ("QSC"), and L.V. Ziakin, Executive Vice President and Chief Human Resources Officer of QSC.

The Board dispensed with the reading of the minutes of the meeting of the Board on July 25, 2001, and such minutes were approved.

Mr. Ziakin joined the meeting and Ms. Szeliga and Messrs. Tempest and Rana left the meeting.

Mr. Popoff presented the Compensation Committee report and led a discussion regarding the matters discussed by the Compensation Committee at its meeting on September 14, 2001. Mr. Popoff reviewed with the Board documents entitled "Highlights of Approved Executive Retention Plan" and a memorandum to the Board from Mr. Rana regarding the "Summary of Joe Nacchio's Compensation Arrangement," which were previously distributed and are attached to these minutes as Exhibit A and Exhibit B, respectively.

Messrs. Nacchio and Ziakin left the meeting.

The Board met in executive session.

Mr. Donohue left the meeting and Ms. Szeliga and Messrs. Nacchio, Mohabbi, Tempest and Rana joined the meeting.

Mr. Nacchio led a discussion regarding the Corporation's disaster recovery activities related to, and lessons learned from, the terrorist attacks on September 11, 2001.

Mr. Donohue rejoined the meeting.

Ms. Szcliga led a discussion regarding the Corporation's updated financial guidance for 2001 and 2002 and reviewed with the Board a document entitled "2001 & 2002 Financial Update", which was previously distributed and is attached to these minutes as Exhibit C. The Board discussed the updated financial guidance, including ways to better position the Corporation relative to its competitors. Mr. Nacchio said that he intended to discuss strategy and competitive positioning at the next Board meeting on October 24.

Upon motion duly made ~~and~~ seconded, the meeting was adjourned at 10:20 A.M.

Drake S. Tempest  
Secretary

From: Mohebbi, Afshin  
 Sent: Friday, September 28, 2001 10:09 PM  
 To: Casey, Greg; Dalton, Joe (VP); Petrie, Deb  
 Cc: Hoaglund, Roger; Eveleth, Bill; Graham, Grant  
 Subject: RE: Help!!!!!!

Bill eveleth and Roger Hoaglund. They need to call Shumaker, Kelly Carter and other finance people, but those two people will help.

Afshin

-----Original Message-----

From: Casey, Greg  
 Sent: Friday, September 28, 2001 10:12 PM  
 To: Mohebbi, Afshin; Dalton, Joe (VP); Petrie, Deb  
 Cc: Hoaglund, Roger; Eveleth, Bill; Graham, Grant  
 Subject: RE: Help!!!!!!

Afshin It's news to me that these yields have gone down so much. What happened? When you say that we need to get these companies to buy "bookable" circuits, who can tell us what those are, by deal? Joe and Deb let's strategize first thing in the morning, greg.

-----Original Message-----

From: Mohebbi, Afshin  
 Sent: Friday, September 28, 2001 9:54 PM  
 To: Dalton, Joe (VP); Casey, Greg; Petrie, Deb  
 Cc: Hoaglund, Roger; Eveleth, Bill; Graham, Grant  
 Subject: Help!!!!!!  
 Importance: High

Team:

As I sitting here in the office at 10:00pm Friday night, I need your help!

We have issues with almost all deals we have on the table. We are committing to buy tons of capacity, eating away my CAP EX and in return, I am getting very little recognizable revenues. This must change, and changed this weekend. We also have completely given up pushing back at anything and anybody that comes up with yet another opinion to interpret things differently. I need you guys to mobilize.

Here is the list:

1. Cable and Wireless: I am paying a total of \$49m and as of now, it looks like I can only book \$19.2m, if I am lucky. Since we have committed to pay them \$49m, lets at least pick circuit combinations that will allow us to book more. The goal here is not to be nice and accomodating to the other side, it is to get bookable revenues NOW
2. Enron: Robin is getting involved with Kelly Carter to get these guys moved from their position. Our risk is much larger than theirs. Bill and Greg, you guys need to get their deal guys to get involved and not let this thing die at the last moment for nothing! This will be shame.
3. Tele globe: I am paying \$20m and as of now I can only book \$8.8m! Greg and Joe, make the circuits and the mix here work in a way that I can book at least \$17-18. Change the circuit selections, do whatever you can to get the number up; worst case, do a smaller deal that books \$8.8m, but does not waste my Cap Ex. money.

QEC 203536

4. Flag: I am buying \$42m of capacity from them, only to book \$4.0m. This is truly a shame. Bill, I am so disappointed we can't find a way out to book more out of this. What happened to the creativity of this company and its employees? We need to PUSH BACK a bit more and see what more we can do without crossing the lines. Come on people!

5. Global Crossing - I am buying \$120m of capacity from these people and as of now I am being told we may be able to book \$40-50m. Again, force these people to take circuits we can book or do a smaller deal and not waste my Cap Ex on the other side.

6. Audrey's projects - Audrey has been great in getting us some help every quarter. This time she has done about \$20m; can she do another 15 to 20 to help out? with other things disappearing that sure can help.

I know all these deals came together extremely late this quarter and that's a story we have to deal with next week, but for everyone's sake, let's put the final push this weekend and get this stuff done, in a way, so I have at least a chance at getting close to my numbers.

Roger, let's make sure we are getting good pricing on our pieces of the deals, since we are definitely giving them good deals. Also make sure the terms and conditions do not restrict our ability to do what we need with the assets we are picking up. All and I'll keep your eyes open and let's not miss a beat because so many things are happening late and all at the same time.

I will be in touch with you guys tomorrow. I am counting on all your support. We have done great things together; let's not have a disaster now.

Thanks

Atshin

---

**From:** Casey, Greg  
**Sent:** Monday, October 01, 2001 7:12 AM  
**To:** Mohebbi, Afshin; Petrie, Deb; Gallegos, James; Casey, Greg/Hawkins, Julie; Filip, Dana; Szeliga, Robin  
**Cc:** Tempest, Drake; Baer, Rich; Hoaglund, Roger; Copeland, Stephanie X; Eveleth, Bill; Hopkins, John  
**Subject:** RE: C&W

that's correct a binding deal was done as of friday gmc

-----Original Message-----

**From:** Mohebbi, Afshin  
**Sent:** Sunday, September 30, 2001 9:45 PM  
**To:** Petrie, Deb; Casey, Greg; Gallegos, James; Casey, Greg/Hawkins, Julie; Filip, Dana; Szeliga, Robin  
**Cc:** Tempest, Drake; Baer, Rich; Hoaglund, Roger; Copeland, Stephanie X; Eveleth, Bill; Hopkins, John  
**Subject:** RE: C&W

We have the e-mails confirming we have a deal; the funds are at hand, and i have the conversation with Andy Mclead calling me late on Friday verifying that we have a deal.

By the way, Andy told me their management board had already approved the deal.

I believe they have a new process where their new CFO has to sign the paper and he gets in early London time (2-3am) so lets get him ASAP.

Afshin

-----Original Message-----

**From:** Petrie, Deb  
**Sent:** Sunday, September 30, 2001 9:36 PM  
**To:** Casey, Greg; Gallegos, James; Mohebbi, Afshin; Casey, Greg/Hawkins, Julie; Filip, Dana; Szeliga, Robin  
**Cc:** Tempest, Drake; Baer, Rich; Hoaglund, Roger; Copeland, Stephanie X; Eveleth, Bill; Hopkins, John  
**Subject:** RE: C&W

greg - c&w called & said that they cannot find anyone to sign & they are stopping looking.

-----Original Message-----

**From:** Casey, Greg  
**Sent:** Sunday, September 30, 2001 8:02 PM  
**To:** Gallegos, James; Mohebbi, Afshin; Casey, Greg/Hawkins, Julie; Filip, Dana; Szeliga, Robin  
**Cc:** Tempest, Drake; Baer, Rich; Hoaglund, Roger; Copeland, Stephanie X; Petrie, Deb; Eveleth, Bill; Hopkins, John  
**Subject:** RE: C&W  
**Importance:** High

They did escalate immediately. Paul Kerwin called me and I told him that we would sign all the deals today before 12 am and that I was disappointed that his people ceased negotiations today knowing that we needed signatures. I think he is the process now of waking people up in London. Stand by. Greg

-----Original Message-----

**From:** Gallegos, James  
**Sent:** Sunday, September 30, 2001 6:16 PM  
**To:** Mohebbi, Afshin; Casey, Greg/Hawkins, Julie; Filip, Dana; Szeliga, Robin  
**Cc:** Tempest, Drake; Baer, Rich; Hoaglund, Roger; Copeland, Stephanie X; Petrie, Deb; Eveleth, Bill; Hopkins, John  
**Subject:** C&W

Attorney Client Privilege/Attorney Work Product

925

Afshin, as you instructed I just contacted C&W to let them know that we are uncomfortable going forward with the consent and assignment agreements for the PRI contracts since we felt that we are being treated unfairly with regard to the IRU deals which we were doing (the sale of a transatlantic lease, and the domestic wave IRU). I told them we had to have the sell agreements signed by 12:00 tonight. The C&W individual I talked to (Pat Sheridan) informed me that he would call me in 10 minutes, but he sounded shaken. They have been pressuring me all weekend to get that document signed. Based on instructions from Roger, I have held off all weekend.

I believe that they will escalate this immediately. I will keep you posted.

Jim

---

**From:** Mohebbi, Afshin  
**Sent:** Thursday, October 11, 2001 8:06 AM  
**To:** Casey, Greg; Hoaglund, Roger; Eveleth, Bill; Gallegos, James; Dalton, Joe (VP)  
**Subject:** RE: Cable and Wireless

sounds good to me. And we need to line up and review the deals weekly. i did not know of the euqipment stuff untill a couple of weeks before the quarter ended.

afshin

-----Original Message-----

**From:** Casey, Greg  
**Sent:** Thursday, October 11, 2001 7:38 AM  
**To:** Mohebbi, Afshin; Hoaglund, Roger; Eveleth, Bill; Gallegos, James; Dalton, Joe (VP)  
**Subject:** RE: Cable and Wireless  
**Importance:** High

Afshin Here's what I suggest; 1)no more low margin equipment deals; we should have killed the ciena deal early to put this in the right posture; 2) let's lock in the accountants on contract language early; we didnt get final language until wed, before the quarter end; 3) no deals unless they are balanced. period. Greg

-----Original Message-----

**From:** Mohebbi, Afshin  
**Sent:** Wednesday, October 10, 2001 9:55 PM  
**To:** Casey, Greg; Hoaglund, Roger; Eveleth, Bill; Gallegos, James  
**Subject:** Cable and Wireless

Team:

After all of our hard work, the AurtherAndersen accountant ruled that the cable and wireless deal was not completed on time and therefore can not be booked in the 3rd quarter.

Obvously, i am disappointed about this , but more importantly determined to make sure we NEVER have to wait until the last moment to sign a deal. The major factor in the decision was the fact that terms of the contract were being changed even after the quarter ended. Our regular customers have figured out the trick and intentionally drag our process until the last moment. we did an unattractive deal and it did not even count. Our processes simply did not work.

Afshin



From: Mohebbi, Afshin  
 Sent: Friday, October 19, 2001 2:28 PM  
 To: Casey, Greg  
 Subject: RE: North American Network Synergy Evaluation

can you call me when you get a chance

-----Original Message-----  
 From: Casey, Greg  
 Sent: Friday, October 19, 2001 9:40 AM  
 To: 'McGrath, Andrew'; Casey, Greg  
 Cc: Jarman, David@gmail  
 Subject: RE: North American Network Synergy Evaluation

Andrew Let's set up a call on Tuesday with David, Roger Hoaglund and myself to discuss how we may proceed. Please have David call me to let me know when he is available. Sorry for the confusion, my assistant has been out this week. Greg

-----Original Message-----  
 From: McGrath, Andrew [mailto:Andrew.McGrath@cwcom.cwplc.com]  
 Sent: Friday, October 19, 2001 9:33 AM  
 To: 'greg.casey@qwest.com'  
 Cc: Jarman, David@gmail  
 Subject: North American Network Synergy Evaluation

Greg,

I hope you had a pleasant vacation. As you return, I'll be starting mine so I thought I'd better send an email rather than continue our failure to communicate.

The reason I've been wanting to talk is to follow up on a conversation that Afshin Mohebbi and Andy MacLeod had a few weeks ago.

The idea is to look at expanding the potential sale of C&W's voice network that has been looked at in recent months, to include C&W's North American transmission layer. In return C&W would lease/purchase back of capacity on the expanded Qwest network.

C&W's motivation for entering into such a deal would be (i) to achieve a lower cost base than through own build (relying on there being some economies of scale by combining our requirements onto the Qwest network) and (ii) increasing our flexibility (being able to take capacity anywhere on the

Qwest network).

I anticipate the motivation for Qwest would be (i) growing run rate and (ii) achieving some consolidation / removing some short-term over supply and (iii) filling the Qwest network more rapidly than without the deal.

Potentially we would boost the Qwest top line further by positioning Qwest as the primary supplier to another of our suppliers of US network (so C&W can obtain dual source supply but purchase everything through Qwest).

I'll ask David Jarman (VF Business Development) to call you next week to understand if you are as keen to evaluate this as Afshin appeared to be. If so, I need you to appoint someone to be our prime interface to conduct this evaluation. I'll stay very close to this and would like to have a regular dialogue with you as the evaluation is conducted.

In terms of timescale, we're motivated to explore this quickly and make a decision by your year-end.

Needless to say, this is a highly confidential piece of analysis as if we do identify a structure that works for both organisations it could have a material impact on some of our US Operations team. I request you restrict the number of people involved in the analysis from Qwest's side and insist on the utmost discretion.

Regards,

Andrew

\*\*\*\*\*  
This message may contain information which is confidential or privileged.  
If you are not the intended recipient, please advise the sender immediately  
by reply e-mail and delete this message and any attachments  
without retaining a copy.

\*\*\*\*\*  
From: Mohebbi, Afshin  
Sent: Sunday, October 07, 2001 4:14 PM  
To: Casey, Greg  
Subject: RE: KPN Qwest Commitments

agreed. i assume you will move in that direction

AFSHIN

-----Original Message-----  
From: Casey, Greg

Sent: Sunday, October 07, 2001 2:43 PM  
 To: Mohebbi, Afshin  
 Subject: RE: KPN Qwest Commitments

we should employ a two prong attack; first, for less desirables, sit back and let the action come to us. we'll be able to dictate the deals better if global, c&w and williams and others try to force the action with us. the second prong of the attack is to go after the ones we really want; att wireless, enron, dtag. but let's differentiate early on who are class A's and who are class B's.

-----Original Message-----  
 From: Mohebbi, Afshin  
 Sent: Sunday, October 07, 2001 2:05 PM  
 To: Casey, Greg  
 Subject: RE: KPN Qwest Commitments

yep. either way, i am now in a mind set that we should do what we need to do and let the accountants make their mind on how to book it. upfront IRU sales were good and continue to be good, once cash becomes available. i think the goal now should be to start activating what we have and to see the surplus for cash.

afshin

-----Original Message-----  
 From: Casey, Greg  
 Sent: Sunday, October 07, 2001 1:49 PM  
 To: Mohebbi, Afshin  
 Subject: RE: KPN Qwest Commitments

ours sure arent

-----Original Message-----  
 From: Mohebbi, Afshin  
 Sent: Sunday, October 07, 2001 10:12 AM  
 To: Casey, Greg  
 Subject: RE: KPN Qwest Commitments

supposedly their accountants in europe are more relaxed with irus!

afshin

-----Original Message-----  
 From: Casey, Greg  
 Sent: Sunday, October 07, 2001 9:32 AM  
 To: Burns, Lisa; Mohebbi, Afshin; Gilmore, Shaun; Arnold, Joel; Helts, Clifford S  
 Cc: Kline, Carol; Szeliga, Robin; Hansen, Steven Q  
 Subject: RE: KPN Qwest Commitments

All

We need to be more realistic about our ability to realize revenue on IRU sales in 2001. Indeed, we have heard from the accountants on several occasions that there will be no up front recognition of IRU revenue next year. Let's save ourselves a lot of anxiety and get a reading from Robin and crew before we finalize these numbers.

Greg

-----Original Message-----

From: Burns, Liza  
Sent: Saturday, October 06, 2001 10:25 PM  
To: Mohebbi, Afshin; Gilmore, Shaun; Arnold, Joel; Holtz, Clifford S; Casey, Greg  
Cc: Kline, Carol  
Subject: RE: KPN Qwest Commitments

Afshin,

I've created a project plan for the action items from our business plan review with KPNQwest a few weeks ago. Teresa Taylor and I have been working the product issues and identified the KPIs we will be tracking going forward. Status of the action items will be reviewed bi-weekly starting on Thursday, the 11th, with the KQ and Q executive team.

As far as the \$35M retail recurring revenues, we expect \$13M-\$15M to come from existing retail customers and another \$10M-\$12M should come from O&M from existing wholesale IRU customers.

This leaves \$8M-\$12M of new recurring revenues we need to acquire in 2002. We think that if we focus on 3 products, MBBS, DIA, and ATM, we should be able to achieve the commitment. The other 2 products, Hosting and VPN, we will handle ICB and will not ask KPNQwest to focus on further development to save capital and other resources for small revenue potential.

I will provide a more detailed update on our call Thursday. Please let me know if you have any additional questions in the meantime. Thanks.

Liza

-----Original Message-----

From: Mohebbi, Afshin  
Sent: Saturday, October 06, 2001 6:24 PM  
To: Burns, Liza; Gilmore, Shaun; Arnold, Joel; Holtz, Clifford S; Casey, Greg  
Cc: Kline, Carol  
Subject: KPN Qwest Commitments

QEC 155967

Team:

In reviewing the business plan Jack McMaster presented to Joe for KPNQwest's plan in 2002, there is an assumption that they will receive \$35m in retail recurring revenue from us.

thats a very large number, compared to what we are doing with them today.

Lisa, I need to know how will that number break between cliff, joel and greg and what are they going to sell when to make the number.

Also, they need to know what's the status of the work we started to improve product performance issues that existed before stopping us (supposedly) from meeting our previous recurring revenue commitments to KQIP.

thanks

Afshin

From: Mohebbi, Afshin

Sent: Tuesday, October 02, 2001 9:33 AM

To: Casey, Greg; Filip, Dana; Halvorson, Beth; McKenney, Audrey; Dalton, Joe (VF);

Petrie, Deb; Hansen, Steven Q; Simons, Linnea X

Cc: Heil, William (Bill); Hoaglund, Roger; Becker, Jim

Subject: RE: 4th q priorities

Great list Mr. Casey;

Couple of suggestion.

1. I have promised myself in blood! we won't go until December 31st to close anything. To do that, we need to start working on 4Qdeal today, pushing the other side very hard and not letting them drag timelines well into the 4th Qtr. Critical Amongst the deals are:

- a. Worldcom, since their approval process takes for ever
- b. Enron II, since they are traders by nature and like last minute pressure
- c. Telefonica, we need to know if these guys will ever buy!
- d. AT&T Wireless - Closing this early can be a huge boost to us.

My suggestion is for us to have weekly status calls, similar to the international calls we have to make sure things are progressing nicely.

Also remember:

KQIP owes us a 17.8m deal as part of the FLAG transaction; lets do it fast and now

rather than the last day.

See my other notes below.

Afshin

-----Original Message-----

From: Casey, Greg  
 Sent: Tuesday, October 02, 2001 8:13 AM  
 To: Filip, Dana; Halvorson, Beth; McKenney, Audrey; Dalton, Joe (VF); Petrie, Deb;  
 Hansen, Steven Q; Simons, Linnea X  
 Cc: Heil, William (Bill)  
 Subject: 4th q priorities  
 Importance: High

here's the list; Emphasis on building recurring revenue and cost savings but not missing  
 the big deal opportunities!!!!-Greg

1. Install 25 million in monthly revenue- Dana
2. Track last 25m in orders to make sure they are billing-Steve
3. Revise Switched rates (dom and iddd)-Joe  
 [Mohebbi, Afshin]  
 track IDD to mexico closely and lets build on the leadership we have.

Also lets establish the next Mexico in terms of opportunity for us

4. End 3q DIA contest (and begin its 4q successor)-Joe
5. Work International Connection Project-bill  
 [Mohebbi, Afshin]

i have asked Jim becker and frank lukas to help. i need to see schedules, timelines,  
 measurable plans

6. Resolve DIA local loop issue-Joe
7. Pursue C&W switch deal-Dan
8. Revise Inregion private line pricing-Audrey
9. Procure 45 m in savings via the COGS Reduction Project-Audrey
10. Implement Mexico Phase II-Linnea
11. Build Dark Fiber Sales Funnel-Linnea  
 [Mohebbi, Afshin]

again, start early in the quarter. Too risky to let these go until the last minute if you have any hope of getting full or partial cash payment

12. Pursue ATT Wireless, Sprint International Deals-Beth

13. Pursue DTAG deal-Joe  
[Mohebbi, Afshin]

must happen this quarter and early in the quarter. force meetings with these guys

14. Headcount 1500-All  
[Mohebbi, Afshin]

the sooner you get to this number the better

15. Make sure all of the above runs smoothly!!!!!!-Deb

From: Mohebbi, Afshin  
Sent: Tuesday, September 25, 2001 4:21 PM  
To: Casey, Greg  
Subject: RE: IRU Updates for the quarter

thanks; how about 6 pm meeting my time with eveleth and others to see where we are on every deal?

afshin

-----Original Message-----

From: Casey, Greg  
Sent: Tuesday, September 25, 2001 2:01 PM  
To: Mohebbi, Afshin; Hansen, Steven Q; Dalton, Joe (VF); Petrie, Deb; Chase, Susan (Wholesale); Comer, Joe; Day, Donna C  
Cc: Eveleth, Bill; Szeliga, Robin; Scott, Matthew; Noyes, Frank T  
Subject: RE: IRU Updates for the quarter

deb your action greg

-----Original Message-----

From: Mohebbi, Afshin  
Sent: Tuesday, September 25, 2001 1:55 PM  
To: Hansen, Steven Q; Dalton, Joe (VF); Petrie, Deb; Chase, Susan (Wholesale); Comer, Joe; Day, Donna C  
Cc: Casey, Greg; Eveleth, Bill; Szeliga, Robin; Scott, Matthew; Noyes, Frank T

Subject: RE: IRU Updates for the quarter

Team:

As we get close to closing deals, i need a one pager for every deal before we finalize it. The one pager should describe the deal what is being bought what is being sold; our margin, other party's margin, all other important information etc. One page only per deal. And i will need to make sure Joe and Robin see anything with a total value of more than 10m

thanks

afshin

-----Original Message-----

From: Hansen, Steven Q  
Sent: Monday, September 24, 2001 6:53 PM  
To: Dalton, Joe (VP); Petrie, Deb; Chase, Susan (Wholesale); Cemer, Joe; Day, Donna C  
Cc: Casey, Greg; Eveleth, Bill; Szeliga, Robin; Mohebbi, Afshin; Scott, Matthew; Noyes, Frank T  
Subject: IRU Updates for the quarter

All,

It is obvious that we are all scrambling to get closure on the deals being worked for IRUs. Several communications and request for updates are coming from various sources and are sometimes outdated when they reach others. I would ask that all updates regarding the status of IRUs that are going to corporate are coordinated through me such that the right and most current information can come from one source and one source only. This would direction would be for both giving and receiving information whether it be regarding status, inventory, revenue recognition, pricing, etc.

I believe this will help all know where we are at with the most up-to-date information. This may also help alleviate the frustration on lack of information as well as the right people are focused on closing the deal with the right information needed.

To date we are working on the following deals with regard to revenue recognition for 3Q:

Global Crossing, Tycom, Enron, C&W

There are some other potential deals but status of those are being determined as I write. I will give a complete detail of the status of these deals Tuesday morning once I receive feedback on some issues with Global crossing and the latest information that Frank has been working with Enron. I will then update both verbally and through e-mails with any changes as they happen.

Hopefully this should keep everyone moving forward and in the loop as to the status of



these deals.

Steven Q. Hansen  
Vice President  
CFO - Wholesale Markets  
Phone: 303-294-4543  
Cell: 720-312-7798

From: Mchebbi, Afshin  
Sent: Tuesday, September 25, 2001 1:55 PM  
To: Hansen, Steven Q; Dalton, Joe (VP); Petrie, Deb; Chase, Susan (Wholesale); Comer, Joe; Day, Donna C  
Cc: Casey, Greg; Eveleth, Bill; Szeliga, Robin; Scott, Matthew; Noyes, Frank T  
Subject: RE: IRU Updates for the quarter

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thanks

afshin

-----Original Message-----

From: Hansen, Steven Q  
Sent: Monday, September 24, 2001 6:53 PM  
To: Dalton, Joe (VP); Petrie, Deb; Chase, Susan (Wholesale); Comer, Joe; Day, Donna C  
Cc: Casey, Greg; Eveleth, Bill; Szeliga, Robin; Mchebbi, Afshin; Scott, Matthew; Noyes, Frank T  
Subject: IRU Updates for the quarter

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Steven Q. Hansen  
Vice President  
CFO - Wholesale Markets  
Phone: 303-294-4543  
Cell: 720-312-7798

QEC 155973

## QWEST COMMUNICATIONS INTERNATIONAL INC.

## Audit Committee of the Board of Directors

October 24, 2001

A meeting of the Audit Committee of the Board of Directors (the "Committee") of Qwest Communications International Inc. (the "Corporation") was held Wednesday, October 24, 2001, commencing at 7:05 A.M. (Denver time) in the Corporation's Board Room, 1801 California, 52<sup>nd</sup> Floor, Denver, Colorado.

Present: Committee members L.G. Alvarado, J.L. Haines, P.S. Hellman and W.T. Stephens (present by telephone); Mr. Hellman presiding. Also present for the entire meeting (except for the executive sessions): R.R. Szeliga, Executive Vice President and Chief Financial Officer of the Corporation, R. Noles, Vice President - Internal Audit of Qwest Services Corporation ("QSC"), Y.A. Rana, Vice President, Senior Associate General Counsel and Assistant Secretary of the Corporation, M. Schumacher, Vice President and Controller of QSC, and M. Iwan of Andersen LLP ("Andersen"), the Corporation's auditors. Present for a portion of the meeting: S. Berman, Senior Vice President and Treasurer of the Corporation, and K. Walker, Vice President of Qwest Asset Management Company ("QAM").

The Committee dispensed with the reading of the minutes of the meetings of the Committee on July 23, 2001 and July 25, 2001 and such minutes were approved.

Ms. Walker led a discussion regarding the employee benefit trusts (the "Trusts") of the Corporation and certain changes in its funded status in light of the economic conditions, current market conditions and the terrorist attacks on September 11, 2001, and she reviewed with the Committee a document entitled "Qwest Employee Benefit Trusts Performance Review," which was previously distributed and is attached to these minutes as Exhibit A. Ms. Walker discussed the steps the Corporation had taken to protect the Trusts' assets. The Committee requested a detailed presentation on the Trusts at a future meeting. Mr. Berman and Ms. Walker left the meeting.

Ms. Szeliga informed the Committee that Mr. Noles had decided to leave the Corporation to pursue other opportunities in the Minneapolis/St. Paul area and that the Corporation wished him well in his future endeavors. Mr. Noles and Ms. Szeliga informed the Committee that they were involved in a search to find a suitable replacement and had interviewed several candidates.

Ms. Szeliga and Mr. Schumacher led a discussion among other things certain accounting matters, accounts receivable, optical capacity transactions and certain other transactions. Ms. Szeliga and Mr. Schumacher reviewed with the Committee a document entitled "Audit Committee 3<sup>rd</sup> Quarter 2001 Accounting Topics," which was previously distributed and is attached to these minutes as Exhibit B.

Mr. Rana led a discussion regarding the Corporation's investments in Vicorp.com, Inc. and Qwest Digital Media, LLC ("QDM"). Mr. Rana reviewed with the Committee documents entitled "Affiliate Transaction Discussion" and "Qwest Investment in QDM & Vicorp," which are attached to these minutes as Exhibit C and Exhibit D, respectively. Mr. Rana discussed with the Committee a transaction between QDM and an affiliate of Anschutz Company related to the Staples Center in Los Angeles. Upon motions duly made and seconded, the following resolutions were approved and adopted by the Committee:

WHEREAS, in September 1999, QDM, a Delaware limited liability company, partially owned the Corporation and Anschutz Company, acquired an event-based production facility located at the Staples Center in Los Angeles (the "LA Production Facility"), comprised of approximately \$8 million in equipment from unaffiliated third parties and leased space from entities affiliated with Anschutz Company at an annual rate of approximately \$20 to \$22 per square foot initially, and increasing thereafter.

WHEREAS, QDM determined that it was not feasible to operate the LA Production Facility because of reduced customer demand and reduced market rates leased space in the area, among other things.

WHEREAS, QDM negotiated with several unaffiliated parties to sell the LA Production Facility but was not able to reach an agreement with any of the parties.

WHEREAS, in September 2001, QDM entered into an agreement to sell the LA Production Facility and the equipment located thereat (collectively, the "Assets") to Anschutz Entertainment Group ("AEG"), an affiliate of Anschutz Company, for a cash payment of \$3.4 million, the assumption by AEG of the lease obligations (the "Lease Assumptions") and a seller note in the aggregate principal amount of \$600,000, payable straight-line annually in arrears without interest (the "Seller Note") (collectively, the "Transaction").

WHEREAS, the Committee has discussed the present and potential future conflicts between the Corporation and QDM, on the one hand, and AEG on the other hand, arising out of the sale of the Assets, the Lease Assumptions and the Seller Note.

WHEREAS, the Committee has discussed the terms of the Transaction in light of the (i) prior determination of QDM to lease the LA Production Facility space from affiliates of Anschutz Company, (ii) asset valuations and appraisals provided by Micor Media Group, Inc. and Grubb & Ellis Company to QDM, copies of which are attached to these minutes as Exhibit E and Exhibit F, respectively, which confirmed that the

Transaction was consummated on market terms, (iii) discussions and negotiations that took place between representatives of QDM and other potential purchasers and (iv) discussions and negotiations that took place between representatives of QDM and AEG, and the Committee has determined in good faith that the terms of the Transaction represent terms that could be negotiated in an arm's length transaction, between a willing buyer and a willing seller, neither of whom is under pressure or compulsion to complete the transaction.

WHEREAS, the Committee has determined that it was in the best interests of the Corporation that QDM enter into the Transaction and the related agreements, and it is in the best interests of the Corporation to ratify the Transaction and the related agreements.

RESOLVED that it was in the best interest of QDM to sell the Assets to AEG in exchange for a cash payment of \$3.4 million, the Seller Note and the assumption by AEG of future lease obligations of approximately \$2 million and to enter into certain agreements and transactions in connection therewith including, without limitation, that certain asset purchase agreement dated September 28, 2001 by and between QDM and AEG (the "Asset Purchase Agreement").

FURTHER RESOLVED, that each of the Asset Purchase Agreement, the Lease Assumptions and the Seller Note, be and hereby is approved and ratified by the Committee.

FURTHER RESOLVED, that any executive officer of QDM be, and each of them individually hereby is, authorized to take such action on behalf of QDM in connection with any of the Asset Purchase Agreement, the Lease Assumptions, the Seller Note and any other agreement, contract, certificate, instrument or other document related thereto (collectively, the "Transaction Documents"), and the transactions contemplated thereby as the officer or officers so acting in his or their sole discretion deem desirable, including, but not limited to, the execution and delivery of the Transaction Documents, the taking of each action to be conclusive evidence that the same has been approved by the Committee.

FURTHER RESOLVED that any action taken or to be taken on behalf of QDM consistent with these resolutions are ratified, confirmed and approved in all respects.

FURTHER RESOLVED that all actions heretofore taken by any officer of the Corporation or QDM that were consistent with the authority granted by these resolutions are ratified, confirmed and approved in all respects.

The Committee informed management that in the future the Committee wanted to review all affiliate transactions in advance, and was of the view that while the Staples Center transaction was appropriate, in the future, the Corporation should, to the greatest extent possible, avoid transactions with affiliated parties.

Mr. Iwan reviewed with the Committee a document entitled "Arthur Andersen Audit Committee Meeting October 24, 2001," which was previously distributed and attached to these minutes as Exhibit G. Mr. Iwan informed the Committee that it was his view that the Corporation's accounting for various transactions was in accordance with generally accepted accounting principles and that the Corporation had made improvements in its accounting for transactions.

Ms. Szeliga led a discussion regarding the Corporation's third quarter financial results and reviewed with the Committee a document entitled "2001 Forecast Update" and "Financial attachments to the Earnings Press Release," which are attached to these minutes as Exhibit H and Exhibit I, respectively.

Mr. Rana left the meeting.

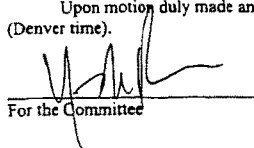
Mr. Noles led a discussion regarding audit plan results and reviewed with the Committee a document entitled "Qwest Audit Services Internal Audit Plan Update Report to the Audit Committee," which had been previously distributed to the Committee and is attached to these minutes as Exhibit J.

Mr. Noles then led a discussion regarding non-attest fees and reviewed with the Committee a document entitled "Arthur Andersen Non-Attest Fees Review January - August 2001 YTD", which had been previously distributed to the Committee and is attached to these minutes as Exhibit K.

The Committee met in executive session with Mr. Iwan.

The Committee met in executive session with Mr. Noles.

Upon motion duly made and seconded, the meeting was adjourned at 9:25 A.M. (Denver time).

  
For the Committee

ARTHUR ANDERSEN

Assurance

Qwest Communications  
International Inc.

Audit Committee Meeting  
October 24, 2001

941

QECX004228

# Preliminary Risk Assessment - Balance Sheet

| Assets                          | Preliminary Risk Assessment |          |      |
|---------------------------------|-----------------------------|----------|------|
|                                 | Low                         | Moderate | High |
| Cash & equivalents              | ✓                           | ✓        |      |
| Accounts receivable             |                             | ✓        | ✓    |
| Allowance for doubtful accounts |                             |          |      |
| Inventories & supplies          | ✓                           | ✓        |      |
| Inventory reserves              |                             |          |      |
| Prepays and other               | ✓                           |          |      |
| Property, plant & equipment     | ✓                           |          |      |
| Goodwill & intangibles          |                             |          | ✓    |
| Investments                     |                             |          | ✓    |
| Other                           |                             |          | ✓    |
| <b>Liabilities &amp; Equity</b> |                             |          |      |
| Accounts Payable                | ✓                           |          |      |
| Accrued expenses                |                             | ✓        |      |
| Advance Billings/Deposits       | ✓                           |          |      |
| Deferred Taxes                  | ✓                           |          |      |
| Borrowings                      | ✓                           |          |      |
| Post-retirement benefits        |                             |          | ✓    |
| Restructuring reserves          |                             |          | ✓    |
| Other                           | ✓                           |          |      |
| Equity                          | ✓                           |          |      |

QECX004229



# Preliminary Risk Assessment - Income Statement

| Revenues   | Preliminary Risk Assessment |          |      |         |
|--|-----------------------------|----------|------|---------|
|  | Low                         | Moderate | High | Maximum |
| POTS   |                             |          |      |         |
| IRU's - cash                                     | ✓                           |          |      | ✓       |
| IRU's - swaps                                    |                             |          |      | ✓       |
| Equipment sales/service back                     |                             | ✓        |      | ✓       |
| Directory  |                             |          |      |         |
| <b>Costs &amp; Expenses</b>                      |                             |          |      |         |
| Payroll related                                  | ✓                           |          |      |         |
| Facilities                                       | ✓                           |          |      |         |
| Telephony - not owned network                    | ✓                           | ✓        |      |         |
| Other general & administrative                   | ✓                           |          |      |         |
| Depreciation & amortization                      | ✓                           |          | ✓    |         |
| Capitalized internal costs                       |                             |          |      | ✓       |
| Merger-related costs                             |                             |          | ✓    |         |
| Restructuring costs                              |                             |          | ✓    |         |
| Impairment charges                               |                             |          |      |         |
| <b>Non-Operating</b>                             |                             |          |      |         |
| Interest expense, net                            | ✓                           |          |      |         |
| Decline in market value of financial instruments |                             |          | ✓    |         |
| Other gains (losses)                             | ✓                           |          |      |         |
| Provision for income taxes                       |                             | ✓        |      |         |

QECX004230

# Accounting Positions Taken

| Conservative Positions                 | Neither Conservative nor Aggressive |  | Unacceptable  |                           |
|--|-------------------------------------|--|---|---------------------------|
|  | Purchase Accounting Reserves        | IRU Disclosures Software Capitalization Litigation | Cash IRUs Asset Impairments - Still in Use Pension/OPEB Assumptions Cyber Centers | IRU Swaps Equipment Sales |
| Inventory Reserves                     |                                     |  |   |                           |
| Cost of Removal Reserve                |                                     | Impairment of Intangibles and Goodwill             |   |                           |
|  |                                     | Bad Debt Allowance                                 | KPNQwest Valuation  |                           |
| Most policies, positions and estimates |                                     | BellSouth Buyback                                  | Consolidation of Affiliates   |                           |
|  |                                     |  | Classification as Merger-related Expenses   |                           |

QECX004231

# Preliminary Assessment of Internal Control System

| World-Class Controls            | Adequate Controls                | Material Weakness               |
|---------------------------------|----------------------------------|---------------------------------|
| Payroll & Disbursements         | Close the Books                  | Information for Decision Making |
| Quality of Accounting Resources | Adequacy of Accounting Resources |                                 |
| Mergers & Acquisitions          | Revenue Assurance - Old Business |                                 |
| IP&A Process                    | Must Processes and Controls      | Cyber-Center Data Security      |
| Physical Security               | Revenue Assurance - New Business | Construction Management         |
|                                 | Regulatory Compliance            |                                 |

QECX004232

## 2001 Audit Plan Primary Focus Areas

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- Revenue Recognition
- Capitalization of Costs
- Impairment Considerations
- Restructuring Reserve Utilization
- Adequacy of Judgmental Reserves
- Pension Assumptions
- New Accounting Pronouncements
- Other GAAS Requirements

QECX004233

## 2001 Detailed Focus Areas

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- Revenue Recognition
  - Indefeasible Rights of Use ("IRU") transactions
    - Cash transactions
    - Swaps
  - Equipment sales
    - Service back
    - No service back
  - Gross vs. net revenue issues
  - Testing of CRIS, IABS, LATIS & SSW billing systems

947

QECX004234

## 2001 Detailed Focus Areas

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- Capitalization of Costs
  - Capitalized software
  - Capitalized interest

## 2001 Detailed Focus Areas

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- **Impairment Considerations**
  - Goodwill and intangibles
  - CyberCenters
  - Marketable equity securities
  - KPNQwest, N.V.
  - Qwest Digital Media, LLC
  - Qwest Cyber.Solutions

## 2001 Detailed Focus Areas

---

- **Restructuring Reserve Utilization**
  - Severance reserves
  - Real estate exit costs
  - Contract terminations and other contractual settlements
- **Adequacy of Reserves**
  - Allowance for doubtful accounts
  - Reserve for excess and obsolete inventory
  - Litigation and contingency reserves



## 2001 Detailed Focus Areas

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- Pension Assumptions
  - Reasonableness of Qwest pension and OPEB assumptions
- New Accounting Pronouncements
  - FASB 141 - *Business Combination Rules*
  - FASB 142 - *Goodwill & Other Intangibles*
  - FASB 143 - *Asset Retirement Obligations*
  - FASB 144 - *Impairments of Long-lived Assets*
  - Emerging Issues Task Force No. 00-11 *Ownership Transfer Requirements of FASB Statement 13 for Leases of Real Estate*
- Other GAAS Requirements
  - Related parties
  - Fraud risk
  - Inventories
  - Quarterly reviews

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QECX004238

2001 Estimated Audit Fees (amounts in millions)

|                                       | Estimated | Actual |
|---------------------------------------|-----------|--------|
|                                       | 2001      | 2000   |
| Total Audit Fees (SEC and Regulatory) | \$ 2.0    | \$ 1.9 |

| Audit Committee Responsibilities  | Responsibility Addressed In Following Meetings:   |
|---|---|
| <u>Financial Reporting</u>  |   |
| 1. Review the Company's annual financial statements, including discussion of any unusual or non-recurring items, the nature and substance of significant reserves, and important judgments on accounting estimates. Discuss annual audit results, including audit adjustments not reflected in the financial statements, and the auditors' reports with the Company's independent public accountants. | January 22, 2001  |
| 2. Meet as required with in-house counsel to discuss legal matters that may have a material impact on the financial statements. If appropriate, meet with outside counsel.  | Counsel present at each meeting.  |
| 3. Review accounting principles applied in financial reporting and to any changes from principles followed in prior years.  | January 22, 2001  |
| 4. Consider the independent public accountants' judgment about the quality and appropriateness of the Company's accounting principles and underlying estimates and other significant decisions made by management as applied in its financial reporting.  | January 22, 2001<br>February 7, 2001<br>April 20, 2001<br>July 23, 2001<br>October 24, 2001 |

| Audit Committee Responsibilities   | Responsibility Addressed In Following Meetings:  |
|--|--|
| 5. Review with financial management and the independent public accountants the quarterly financial results prior to its filing on Form 10-Q. The Committee Chair may represent the entire Committee for purpose of this review.  | April 20, 2001<br>May 2, 2001<br>July 23, 2001<br>July 25, 2001<br>October 24, 2001<br>October 26, 2001  |
| <u>Independent Public Accountants</u>  |  |
| 6. Recommend appointment of independent public accountants annually to the Board of Directors, considering independence and effectiveness. On an annual basis, the Committee should review and discuss with the independent public accountants all significant relationships the accountants have with the Company to determine the accountants' independence.       | January 22, 2001—discussed auditor's relationships with Company and related impact on independence.<br>February 7, 2001—recommended appointment of Andersen as 2001 independent auditors.                                  |
| 7. Annually, review audit plans and proposed fees with the independent public accountants and evaluate the adequacy of the proposed audit scope.   | October 24, 2001   |
| 8. Review with management and the independent public accountants the overall adequacy and effectiveness of internal controls, policies, and procedures, including computerized information system controls and security. Also, annually review management's responses to matters covered by the Company's independent public accountants' letter of recommendations. | February 7, 2001—Andersen led discussion of internal controls.<br>(Independent public accountants' letter of recommendations not issued.)<br>December 5, 2001—planned discussion of "Internal Control and Process Review." |

| Audit Committee Responsibilities  | Responsibility Addressed In Following Meetings:   |
|---|---|
| 9. Review with independent public accountants the items required to be communicated to the Committee by generally accepted auditing standards.  | February 7, 2001  |
| Internal Audit  |   |
| 10. Annually review the activities and organizational structure of the internal audit function.   | February 7, 2001—discussed 2000 internal audit results.<br>July 25, 2001—updated audit plan.<br>October 24, 2001—updated audit plan.<br>December 5, 2001—planned discussion of 2002 internal audit plan.  |
| 11. Review the effectiveness of the internal audit function.  | February 7, 2001—discussed 2000 internal audit results.<br>July 25, 2001—updated audit plan.<br>October 24, 2001—updated audit plan.<br>December 5, 2001—planned discussion of 2002 internal audit plan.  |
| 12. Review summaries of internal audit reports and management's responses.  | July 25, 2001<br>October 24, 2001   |
| Other   |   |
| 13. Review and assess any other matters relating to the company's internal controls, accounting, or financial reporting, as it deems necessary. | SEC correspondence—discussed July 23, 2001.<br>Employee benefit plan trusts—discussed October 24, 2001.<br>Accounting issues—discussed at each quarterly meeting in connection with earnings releases.<br>Affiliate transactions—discussed October 24, 2001.<br>Accounting for certain transactions—discussed October 29, 2001. |

| Audit Committee Responsibilities   | Responsibility Addressed In Following Meetings:   |
|--|---|
| 14. Meet with the independent public accountants, internal audit, and management in separate executive sessions to discuss any matters that the Committee or these groups believe should be discussed privately. | As deemed necessary in various Committee meetings, principally in the quarterly meetings associated with earnings releases. |
| 15. Provide, as necessary, such other advice or input to actions suggested or contemplated by management, which may be within the Committee's scope of responsibility.   | As deemed necessary in various Committee meetings.  |
| 16. Annually assess the Committee's compliance with the duties and responsibilities outlined in the Charter.   | December 5, 2001  |
| 17. Review and propose amendments, as appropriate, to the Charter to the Board of Directors.   | Not applicable for 2001.  |

Tom Stephens

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From: Hellman, Peter [phellman@nordson.com]  
 Sent: Thursday, October 25, 2001 8:43 AM  
 To: 'Tom Stephens'  
 Subject: RE: Qwest Audit Committee Meeting - October 24, 2001, 7:00 A.M.

Tom:

We did have a good conversation with Russell Knowles, Internal auditor. While he is not leaving because of anything at Qwest directly, a factor in his decision is the tone at the top and how that makes their job at corporate more difficult. Not that Joe is not saying the right things (make the numbers and do it the right way) but the line people including the divisional CFOs are only hearing make the numbers. In my opinion there are well known consequences for not making the numbers but no clear consequences for cutting corners. Until the consequences are equal the behavior will not change. Take Calpoint as an example. Management is proud that conservative accounting was used. In fact, it was only after the transaction appeared in the press, and there were several rounds of questions did it become known that a take or pay clause exists making the accounting mandatory. Finance people in the business unit were obscuring the appropriate facts both from AA and Robin to whom they directly report. As far as I can determine there were no consequences for their actions.

I suggested to Russell that he also meet with you and that an agenda for such a meeting might be to go over the AA risk assessment sheets that were not faxed to you. This would allow Russell to give his own risk assessment by income statement and balance sheet line item. I think it would take no more than 30 minutes. Given that you are going to be there tomorrow maybe it could be done then. He is with us until the end of October.

Best regards,

Peter

QEC X 0053

Investors

<<http://wsj.savethis.clickability.com/st/saveThisPopupApp?clickMap=saveFromEmail&partnerID=150&etMailToID=1736593720>> SAVE THIS link  
<<http://wsj.emailthis.clickability.com/et/emailThis?clickMap=forward&etMailToID=1736593720&partnerID=150>> FORWARD THIS link

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<<http://images.clickability.com/eti/spacer.gif>>

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**Tom Stephens**

From: Hellman, Peter [phellman@nordson.com]  
Sent: Sunday, February 10, 2002 1:26 PM  
To: 'Tom Stephens'  
Subject: RE: IRU's

Tom,

I am glad to know you are always concerned of my sleep. I will read the attached before our meeting. I too had read, and was concerned about our IRU position. At some, we may want to have access to the AA national research partner to substantiate the position of our local team. This may be a help in the future if the SEC or other party takes exception to our accounting.

With best regards,

Peter  
-----Original Message-----  
From: Tom Stephens  
To: 'Hellman Peter S. (E-mail)'  
Cc: Szelliga, Robin  
Sent: 2/9/02 2:03 PM  
Subject: IRU's

Peter,  
In getting ready for our meeting next week I was looking for everything I could find on the subject of IRU's. I came across this on the AA web site and being too cheap to buy it on the web, I asked Qwest to send it to me.

Having skimmed it once I noted:  
\* Engineers reading accounting literature is as dangerous as an accountant designing an airplane wing.  
\* There is a good reason audit committees have to rely on experts.  
\* It is a very complicated analysis where the fact pattern is critical to the accounting treatment. Robin's controls are key to doing it right.  
\* The SEC has explored the issue and come to some conclusions, but I couldn't tell what they were.  
If you have trouble sleeping I highly recommend it as a sedative.



Summary, Summary

From: McGrath, Andrew [Andrew.McGrath@cwcom.cwplc.com]  
 Sent: Tuesday, February 19, 2002 1:34 AM  
 To: Martin, Gordon  
 Subject: Wallace / Nacchio Letter - forewarning

Gordon,

FYI - below is early sight of the letter that Graham Wallace shall be sending this week to Joe Nacchio.

Andrew

BY POST AND FACSIMILE

[ ] February 2001

Joseph P. Nacchio  
 Chief Executive Officer  
 Qwest Communications Corporation  
 555 Seventeenth Street  
 Denver, Colorado 80202

Re: Exercise of Rights by Cable & Wireless

Dear Mr. Nacchio:

I am writing to request that Qwest honour the notice that Cable & Wireless issued to Qwest in accordance with Cable & Wireless' rights to swap out capacity under the '109' agreement. This matter needs your immediate attention.

In summary, my team served Qwest with a written notice on 28 December 2001 exercising Cable & Wireless' contractual rights to exchange capacity in accordance with clause 5.4 of the IRU Agreement entered into by the parties on 31 March 2000 (and later amended on 27 December 2000) and with a further letter from Greg Casey of Qwest issued on about 28 December 2000. The exercise was based on pricing made available in Greg Casey's letter.

On 29 December 2000, Cable & Wireless also received further correspondence from Afshin Mohebbi, COO of Qwest Communications, again confirming the understanding of the parties and allaying any fear that the wording and intent of the agreements between Qwest and Cable & Wireless could be misconstrued. Specifically, the correspondence states that "Qwest guarantees that should Cable & Wireless request such a trade prior to 31 December 2001, then Qwest shall provide such capacity...."

In response to our exercise notice, on 28 December 2001, your team sent us correspondence offering new rates valid for ninety (90) days from that date. We have recently requested clarification from Qwest regarding the practicalities of implementing the exchange under these new rates and have now been informed by Qwest to our great surprise that those rates, and the original contract rights, have been withdrawn. As you are fully aware, our contractual rights cannot simply be unilaterally withdrawn.

Accordingly, Cable & Wireless requires that Qwest honour its contractual commitments and facilitate the exchange of that the capacity in accordance with the terms and intent of the original agreements between the parties.

In order to preserve our longstanding and fruitful relationship, I am sure that you agree that this matter needs to be resolved rapidly so that we can clear path to conclude future initiatives.

I look forward to your response.

Graham Wallace

1

FOIA Confidential Treatment Requested by Qwest Communications Int'l Inc.

QEC 2034

QEC 20367



*file*

555 SEVENTEENTH STREET • SUITE 2400 • DENVER, COLORADO 80202 • 303-298-1000 • FAX 303-298-8881

March 5, 2002

**Personal and Confidential**

Mr. Thomas Stephens  
3333 East Platte Avenue  
Greenwood Village, CO 80121

Re: Qwest Communications International Inc  
Audit Committee

Dear Tom:

I am enclosing for your review and action, as Chairman of the Audit Committee, a copy of a letter dated February 25, 2002, from Gregg Napoli containing allegations regarding other employees of Qwest.

I have discussed the matter with Drake Tempest, Executive Vice President and General Counsel of Qwest, who has asked Richard Baer, Senior Vice President, Legal Affairs, Deputy General Counsel, to work with you to determine the accuracy and materiality of the matters raised in Mr. Napoli's letter.

Sincerely yours,

Philip F. Anschutz

PFA:kj  
Enclosure  
cc: Drake Tempest, Esquire

QEC 141501

RECEIVED  
MAR 04 2002

February 25, 2002

BY CERTIFIED MAIL, RETURN RECEIPT REQUESTED

Mr. Chris Ancell  
Qwest Communications  
555 17<sup>th</sup> Street  
Denver, Colorado 80202

Dear Chris:

It is unfortunate that I believe I have no choice but to submit this written complaint to you. As you know, I have sent voicemails, emails and have had direct dialogue with not only you, but with Human Resources, Susan Demmin, Frank DiPizzo and Keith Szanto. However, I have received no assistance from anyone at Qwest Communications, nor has anyone offered to investigate the matters I have brought forward. At this time, I am being harassed here at Qwest, and my work life has become very troubling. However, I cannot stand quietly aside while fraudulent acts are being perpetrated by Qwest management and employees.

As I have made clear in my numerous complaints, various members of the Qwest organization, at various managerial levels, are flashing false and fraudulent information with respect to sales. As you know, when a deal is signed, the contract value is flashed into SIEBEL. This flashed deal amount is supposed to match the order value. Nonetheless, it has come to my attention that deals that have never been signed are being flashed as sales. Furthermore, individuals flashing deals are substantially inflating the value of the sale, and are misstating sales figures throughout Qwest. As you know, quota is matched against flash. Furthermore, sales members are paid on flash and they hit quota escalators based on the flashed sales figures. Additionally, this information is believed to be provided in information that ultimately is disbursed to the investing public and the entire Qwest organization. I believe this practice is widespread and is sanctioned by upper level Qwest officers and management. I will detail several instances which I have observed as of late.

Mr. Chris Ancell  
February 25, 2002  
Page 2

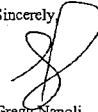
1. Around December, 2001, a Pair Networks hosting deal was flashed as a sale, despite the fact that this deal was never signed or executed. My understanding is that the sales representative, Rick Nolan, was advised by Sandy Faub and Michelle Moran to flash this information.
2. A NextMed hosting deal was flashed for double the amount of the sale on the order. My understanding is that the representative on the account was Jeff Pittman as well as James Gohng, and others involved were Gary Alto, Michelle Moran and Frank DiPizzo.
3. I also believe that an A. Schulman hosting was flashed at a higher amount than it should have been. I believe individuals involved in that account are Jeff Pittman, Gary Alto and Michelle Moran.
4. I have also discovered that one account, Plant Moran, handled by Jill Brady, was flashed at least three times, despite the fact that it should have been flashed once.
5. Additionally, it is my understanding that fake orders have been flashed and/or that cancelled orders were turned into new orders for Cinemark, Reesebrothers and Penn Fashion.
6. It has also come to my attention that improprieties have occurred with respect to Route 21, in which a sale was flashed for a higher amount, and was resigned again and again, and Flexys, in which individuals flashed sales information prior to the contracts being executed or finalized.

I firmly believe that these serious misrepresentations constitute serious criminal acts, and are defrauding the corporation of its value. As a shareholder, I am even more troubled because I believe this conduct is seriously decreasing the value of the shares I hold in this company. I have reported this conduct and asked that the necessary corrections be made. My requests have been to no avail.

Mr. Chris Ancell  
February 25, 2002  
Page 3

By copy of this letter, I am formally requesting that the Board of Directors of Qwest Communications institute a lawsuit on behalf of the corporation to recover any and all moneys lost by these fraudulent and illegal practices of Qwest officers and employees. I seriously hope that all individuals involved fully appreciate the damage they have done to other employees and to Qwest.

Sincerely



Gregg Napoli

GN:acm

cc: Jeffrey Pearl, Regional Vice President (by Certified Mail)  
Clifford S. Holtz, Executive Vice President (by Certified Mail)  
Joseph P. Nacchio, Chairman and CEO (by Certified Mail)  
Drake S. Tempest, Executive Vice President, General Counsel and Chief Administrative Officer (by Certified Mail)  
✓ Qwest Communications Board of Directors, c/o Philip E. Anschutz, Chairman of the Board (by Certified Mail)

From: Hoeglund, Roger  
Sent: Friday, March 08, 2002 6:16 PM  
To: Mohebbi, Afshin; Filip, Dana  
Subject: RE: 109 Meeting Notes

I'll respond back on points 3 and 4 to Richard.

- 3 - WSA stays at \$1M.
- 4 - I'd like to raise that \$7M is ok, but the full \$28M needs accounting approval.

-----Original Message-----  
From: Mohebbi, Afshin  
Sent: Friday, March 08, 2002 6:17 PM  
To: Hoeglund, Roger; Filip, Dana  
Subject: RE: 109 Meeting Notes

HOLD THE LINE HERE. IF THEY WANT TO LEAVE, THEY CAN.

AFSHIN

-----Original Message-----  
From: Hoeglund, Roger  
Sent: Friday, March 08, 2002 6:09 PM  
To: Mohebbi, Afshin; Filip, Dana  
Subject: RE: 109 Meeting Notes

#8. - Yes, we have lower rates from WCOM. That's why their assignment to Qwest is not done correctly. It states we have to pay WCOM the rates that C&W had, and not our rates with WCOM.

\$109M - ok.

I agree on the totality. It's CW neutral, Qwest down \$108M less scrap value of the \$90M turn-in. I pointed this out very clearly to them on today's call.

Roger

-----Original Message-----  
From: Mohebbi, Afshin  
Sent: Friday, March 08, 2002 6:07 PM  
To: Hoeglund, Roger; Filip, Dana  
Subject: RE: 109 Meeting Notes

SO ON #8 WE CAN GET THE LOWER RATES FROM WCOM OR NOT?

ALSO WHEN THEY LOOK AT THE DOLLARS FROM BOTH SIDES, INCLUDE THE O&M LOSS FROM THE 109 DEAL FOR US.

DONT LET THIS FINANCE GUY TAKE US TO THE CLEANER. THEY HAVE ALREADY GOTTEN A GOOD DEAL

FROM US.

-----Original Message-----

From: Hoaglund, Roger  
Sent: Friday, March 08, 2002 5:58 PM  
To: Mohebbi, Afshin; Filip, Dana  
Subject: RE: 109 Meeting Notes

#3. WSA - we did not agree to this. It's what they would like to see.  
#4. \$59M TRU - I'm nervous it's higher than the 10%. And yes, they want the balance in the form of a reduction in WSA.  
#5. CM - its only for circuits they keep (\$10M).  
#7. Balance due - don't know, but we can find out.  
#8. \$2.5M out of pocket, plus the lost margin we expected to have when we rolled them on-net positive \$100K per month).

-----Original Message-----

From: Mohebbi, Afshin  
Sent: Friday, March 08, 2002 5:51 PM  
To: Filip, Dana; Hoaglund, Roger  
Subject: FW: 109 Meeting Notes

See my comments in BOLD BELOW:

AFSHIN

-----Original Message-----

From: Franklin, Richard [mailto:Richard.Franklin@cwcom.cwplc.com]  
Sent: Friday, March 08, 2002 3:25 PM  
To: 'Filip, Dana'; 'Hoaglund, Roger'  
Cc: 'Afshin.Mohebbi@qwest.com'; Jeffery, Nick; Hennessy, Gordon; McGrath, Andrew  
Subject: RE: 109 Meeting Notes

> Without Prejudice and For Settlement Purposes Only  
>  
> Dana, Roger,  
>

Thank you for another positive call this afternoon building upon yesterday's basis of understanding

Detailed below is an updated statement of positions covering the closing points of the discussion which we believe details the understanding concluded

Unchanged  
> 1. Qwest will meet the porting of 10% of the value of the \$109m as requested by C&W to the routes and rates identified on 28/2/02 by email  
> 2. C&W will surrender the \$109m capacity currently held back to Qwest  
>  
Changed

> 3. Qwest will reduce C&W's commitment to Qwest under WSA from \$3.4m per month to \$0.0m per month for the duration of the term from March/1/02.

WHO THE HELL AGREED WITH THIS? I THOUGHT WE WENT DOWN ONLY 2/3.

>

Resolution of other items raised

> 4. C&W relinquish the option to port the remaining \$45.96 of capacity on the \$69.8m capacity purchase from Qwest and Qwest relinquish the option to port \$28.7m of UK and European wavelengths to Apollo. C&W keep the currently ported capacity of \$23.87m

I ASSUME THEY WANT TO BALANCE THE REST OF TAKE OR PAY WITH THIS.

> 5. C&W agree to pay an invoice submitted by Qwest for obligations under the WSA commitment of \$5.1m

> 6. Both C&W and Qwest agree to continue to pay O&M charges on assets each party owns

BUT THEY DONT OWN THE \$109 CIRCUIT ANYMORE. SO THEY WON'T BE PAYING ANY O&M ON IT! HAS THAT BEEN COUNTED IN THE BIG PICTURE OF THINGS

> 7. Qwest agree to pay any overdue IRU invoices/amounts already submitted by C&W to Qwest

WHAT IS THIS ONE; IT LOOKS NEW TO ME; HOW MUCH ARE WE TALKING ABOUT

> 8. C&W agree not to enforce its rights under the LOI that Qwest take assignment of the DSA contract

ANY VALUE ASSICATED WITH THIS?

>

Again, Qwest nor C&W shall add to this list, the next action being a further call on Monday at 10.30 MT / 5.30 UK using the usual bridge number

> Regards,

>

> Richard Franklin

> Director, Bandwidth Risk Management

> Service Providers

> Cable & Wireless

> "Delivering the Internet Promise"

> www.cw.com

>

> richard.franklin@cwcom.cwplc.com

> Phone +44(0) 207 315 6384

> Mobile +44 (0) 7879 434 949

>

>

.....

This message may contain information which is confidential or privileged. If you are not the intended recipient, please advise the sender immediately by reply e-mail and delete this message and any attachments without retaining a copy.

.....

-FOIA Confidential Treatment Requested by Qwest Communications Intl. Inc.-

QEC 107256  
QEC 107257



**Robin Szeliga**

---

From: mark.iwan@us.andersen.com  
 Sent: Friday, March 29, 2002 3:07 PM  
 To: bktread@qwest.com; robin.szeliga@qwest.com  
 Subject: Qwest Investigation



Qwest  
 digation Final Me  
 Bryan

I wanted to confirm the completeness and accuracy of my understanding of Qwest's investigations. Can you please comment on the attached.

(See attached file: Qwest Investigation Final Memo.doc)  
 \*\*\*\*\*Internet Email Confidentiality Footer\*\*\*\*\*

Privileged/Confidential Information may be contained in this message. If you are not the addressee indicated in this message (or responsible for delivery of the message to such person), you may not copy or deliver this message to anyone. In such case, you should destroy this message and kindly notify the sender by reply email. Please advise immediately if you or your employer do not consent to Internet email for messages of this kind. Opinions, conclusions and other information in this message that do not relate to the official business of my firm shall be understood as neither given nor endorsed by it.

## Memo

ANDERSEN

To MTTF  
 From Mark M. Iwan  
 Date March 24, 2002  
 Subject Meeting with Bryan Treadway

Address  
 Tel 303 291 9150  
 Fax

On March 10, 2002, and March 24, 2002, I met with Bryan Treadway, Qwest Controller. Bryan shared with me the results of an in-depth review of IRU contracts performed by Qwest and its outside counsel. The purpose of the review was to identify any issues regarding IRU transactions previously not known to corporate accounting, that may have bearing on the original accounting conclusions reached by Qwest.

On March 28, 2002, I met with Bryan Treadway to understand Qwest's final conclusions regarding its investigation of IRU transactions.

## Global Crossing

*Q1 2001*

In Q1 2001, Qwest purchased Northern Ring capacity from Global Crossing. Some of this purchased capacity was not accepted until June 11, 2001. In a separate legal transaction, Qwest sold capacity to Global Crossing. Qwest received acceptance letters in the first quarter for the capacity sold to Global Crossing and cash payment from Global Crossing was received before the end of the quarter. Legal counsel has concluded that Qwest could retain the cash remuneration regardless of Global Crossing's or Qwest's performance or non-performance under the separate purchase contract.

The investigation raised some question as to whether Qwest's intent was to port to the Southern Ring. As of the date of this memo, no capacity has been ported from the Northern Ring to the Southern Ring. Qwest's investigation found that it intended to use the Northern Ring capacity. Qwest only wanted the flexibility to port to the Southern Ring if the need were to arise in the future. Qwest acquired additional Northern Ring capacity in the second quarter of 2001, which supports its assertion that there was a need for the Northern Ring capacity.

On March 28, 2002, I spoke with Robin Szeliga (CFO). According to Ms. Szeliga, the majority of the capacity acquired by Qwest from Global in this transaction has been lit by Qwest. Bryan Treadway shared with me Qwest's final conclusion that the transaction was appropriately recorded in Q1 2001.

*Q2 2001*

In Q2 2001, Qwest sold \$115 million in domestic and European capacity to Global Crossing. Qwest acquired \$100 million East Asian and \$19.7 million of Pacific Crossing and Hong Kong to Tokyo capacity from Global Crossing, under separate legal agreements, during the same quarter.

Date March 24, 2002  
 Subject Meeting with Bryan Treadway  
 Page 2 of 12

During its investigation, Qwest discovered an e-mail chain originated by Robin Wright of Global Crossing. I did not have access to the e-mail but was told it contained language similar to the following:

Global Crossing

As we have agreed, because we are both being delivered what we probably both don't want in the long-term, we have agreed on both sides that the repurchase price is the actual amount paid, not the fair market value.....We are taking capacity to help with revenue recognition issues.

Qwest (Susan Chase)

I agree with your comments. It is our intention to keep you whole. This language is in our last agreements. Accounting needs to reflect this in the upgrade and portability language.

In a previous meeting (March 10, 2002), the substance of the e-mail was explained to me as being the following:

Qwest received an e-mail from Global Crossing stating we are buying capacity we don't want to help with revenue recognition. Global Crossing wants the ability to port to acquire capacity desired in the long-term. Qwest's reply was that accounting won't let us do these deal structures anymore. The Qwest employee asked if this was handled via a side-letter in Q1.

Upon completion of its investigation, Qwest concluded that they did indeed want the capacity that was acquired from Global Crossing. Qwest has a written business case seeking to purchase alternative capacity from Tycom for the same purpose in the same quarter. Qwest received better terms from Global Crossing.

Susan Chase stated during the investigation that these are normal negotiation tactics used in an attempt to secure lower prices when negotiating capacity transactions. She confirmed as part of the investigation that there were no side letters in relation to previous transactions.

The clause in question was the ability to exchange or upgrade the capacity at the original purchase price. A first quarter transaction included a clause that allowed Global Crossing to ask to exchange the capacity at the original price; however, the exchange could only be consummated upon mutual consent. The investigation concluded Qwest was not legally or economically compelled to grant permission for the exchange. Qwest has not ported this capacity in an exchange transaction as of the date of this memo. The Qwest controller (Mark Schumacher) accepted the first quarter wording because it was at Qwest's discretion whether to accept or reject the offer, thus Qwest did not have an obligation to repurchase the property nor did Global Crossing have a put. For all future transactions, Qwest insisted on mutual consent wording with a fair value clause in lieu of original purchase price. The fair value clause was ultimately included in the second quarter transaction that was the subject of the e-mail chain. Qwest thus rejected Global Crossing's insistence that the exchange clause be worded to permit an exchange (if accepted by Qwest) at the original purchase price.

Qwest further concluded that Global's assertion it did not want the capacity received in the second quarter was without merit. Global Crossing insisted on substantial European capacity in this transaction. Qwest needed to acquire the capacity (for cash) from KPNQwest under its distribution agreement in order to complete the transaction.

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As a result of its investigation, Qwest concluded that Global Crossing's assertions in the e-mail are without merit and were likely negotiating tactics.

On March 28, 2002, I spoke directly with Susan Chase. Ms. Chase told me she did not have a copy of the e-mail any longer but believed the controversy centered around backhaul capacity Qwest had previously sold to Global Crossing. The backhaul capacity was from the Japan-to-U.S. landing station to the Oakland POP. Global Crossing wanted to port that backhaul capacity to San Francisco. According to Ms. Chase, Qwest would not permit Global Crossing to port that capacity. She told me there was no agreement to allow Global Crossing to unilaterally port the capacity and in fact this capacity has never been ported by Qwest for Global Crossing. Ms. Chase told me that the controversy will be resolved in 2002 by Qwest selling Global Crossing an extension and loop from Oakland to San Francisco for fair value in lieu of porting the initial capacity. Ms. Chase stated that this 2002 deal did not close yet but should close any time. Under Qwest's interpretation of SFAS No. 144, no revenue would be recognized on this 2002 transaction.

Ms. Chase also mentioned a second issue with Global Crossing. Ms. Chase told me Global Crossing wanted the ability to port, if accepted by Qwest, at the original price in lieu of fair value. According to Ms. Chase, she informed Global Crossing that Qwest would only accept a mutual consent, fair value clause. This is consistent with the clauses included in the capacity agreements subsequent to Q1 2002.

On March 28, 2002, I was shown a copy of the subject e-mail but not permitted to retain a copy for our files. The substance of the e-mail was consistent with the above discussion and no new concerns arose from my review of the e-mail. The e-mail did mention Erin Wray (Controller of KPNQwest) and what appeared to be her refusal to agree to something other than a fair value, mutual consent portability clause. A substantial amount of the capacity sold to Global Crossing was acquired by Qwest from KPNQwest.

According to Bryan Treadway, Qwest's conclusion was that this transaction was correctly recorded in Q2 2001.

#### *Q3 2001*

Qwest sold \$39.7 million in 10-gig domestic capacity and recorded \$28.5 million in revenue. In the same quarter under a separate legal agreement, Qwest acquired \$78 million of STM-1's on Pan American Crossing (west coast of the United States through Mexico to Panama) from Global Crossing. Qwest also received a right to port the Pan American Crossing (PAC) capacity to South American Crossing (SAC) and Mid-Atlantic Crossing (MAC). The original Qwest business case was written to support the SAC/MAC capacity purchase-not PAC.

The Qwest investigation concluded that there was a valid business purpose to obtain the PAC capacity, regardless of the desire and ability to port to SAC and MAC. The PAC capacity could be used for the same purpose as the SAC/MAC capacity and, on a stand-alone basis, would provide a backbone for a possible Mexican joint venture being considered to better utilize Qwest's Mexican network. The primary objective of acquiring PAC in lieu of waiting for SAC/MAC to become available was to own an asset rather than an option to acquire SAC/MAC in case Global Crossing filed for bankruptcy. Qwest was concerned about Global Crossing's viability and did not want to get shut out of Latin America. If Global Crossing did file for bankruptcy and the option arrangement was vitiated, Qwest was concerned it would not be able to obtain capacity to support its

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business needs if they did not own PAC. Those business needs included: (1) a U.S. government contract to provide secure services in Latin America; (2) preliminary negotiations to form a possible Latin American venture with a local partner; and (3) a possible joint venture with Bell South. Without this purchase from Global Crossing, Qwest had no submarine cable capacity to Latin America. Qwest believed Global Crossing was the only company that had available Latin American capacity.

Qwest further felt that the Global Crossing capacity was at a good price. A memo from Bill Heil (Senior Director of Global Infrastructure), requesting approval of the SAC/MAC purchase from Global Crossing compared the price to the only theoretical alternative capacity on Emergia's network. The price quote for 56 STM-1's on Emergia was \$100.8 million versus \$60.2 million on SAC.

On March 28, 2002, I spoke with Robin Szeliga (CFO) about the status of PAC versus MAC/SAC capacity. Ms. Szeliga informed me that Qwest exercised its option and began porting capacity to SAC/MAC in 2002.

According to Bryan Treadway, Qwest's conclusion was that this transaction was correctly recorded in Q2 2001

#### Cable and Wireless (C&W)

##### Q1 2001

In Q1 2001, Qwest sold C&W sonet and wave capacity for \$68.9 million. Qwest bought from C&W under separate legal agreements Hong Kong to Tokyo and European capacity for \$68.9 million. In Q3 2001, Qwest ported \$48.7 million of the \$68.9 million in acquired capacity.

According to its investigation, Qwest acquired similar Hong Kong to Tokyo capacity from Global Crossing in Q2 2001. The capacity was at a cheaper price than Qwest paid C&W for similar capacity in Q1. Thus Qwest opted to port the capacity back to C&W and keep the cheaper Global Crossing capacity.

The business case cites a change in business plans as the reason for porting the capacity. The KPNQwest network paralleled the original European capacity and provides an alternative solution. The newly acquired capacity was on the Southern Cross and Gemini systems. The Southern Cross capacity will be used to accommodate internal growth including new governmental system needs. Qwest received an order for one of the four STM-1's on Southern Cross for 4Q 2001 from a government services client and forecasted a total demand for that customer of up to an STM-16 by Q4 2002. The Gemini capacity was needed as a result of increased requests for trans-Atlantic capacity from other carriers.

According to Bryan Treadway, Qwest's conclusion was that this transaction was correctly recorded in Q2 2001

##### Q2 2000

In Q2 2000, Qwest sold \$65 million in OC-48's to C&W. No revenue was recognized in the 2000 financial statements for this transaction because the transaction was pre-merger. Further, pre-merger Qwest was not required to file a 10Q for Q2 2000 and thus the transaction was not reported in its financial statements.

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In Q3 2000, Qwest granted C&W an option to acquire OC-192's from Qwest along similar routes. The strike was \$65 million and Qwest employees expected that C&W would use the OC-48's to fulfill the strike price. Sometime in Q2 2001, C&W asked to exercise the option for the OC-192's.

On March 28, 2002, I spoke with Bryan Treadway regarding this transaction. The timing of the option agreement calls into suspicion the intent of the original sale and whether C&W was assured portability. Qwest believes a proposed adjusting entry is appropriate. The result would be deferred revenue and additional goodwill of \$65 million at acquisition. Because the capacity has still not been ported to OC-192's, the 2000 and 2001 income statement impact would be a minor amount of revenue recognition (approximately \$3 million annually) offset by an even smaller amount of goodwill amortization (approximately \$1.5 million annually).

#### *Q4 2000*

Qwest sold \$109 million in capacity to C&W. An e-mail from the President and COO of Qwest assured C&W that Qwest would honor the intent of the parties in the transaction, which in C&W's view was to provide for portability if requested by December 31, 2001. C&W requested portability in Q4 2001. In February 2002, Qwest sent a letter to C&W stating they did not believe C&W had the unilateral right to insist on portability. To settle this dispute, Qwest has tentatively agreed to accept 10% of the capacity in Q1 2002 for the original price of \$10.9 million. C&W will abandon the remaining 90% because it no longer has a need for the capacity, and as is C&W's right under the purchase agreement it will cease paying O&M.

The Qwest investigation concluded that C&W did not have a contractual right to port the capacity and the initial accounting was correct in Q2 2000. The settlement was part of a larger settlement with C&W to clear several disputes and, according to Qwest counsel, did not result from C&W's alleged unilateral right to port the capacity. According to Bryan Treadway, Qwest has concluded that the transaction was correctly recorded in Q3 2000.

#### *Tycom*

#### *Q2 2001*

Qwest sold \$134.5 million in capacity to Tycom and acquired, under separate legal agreement, trans-Atlantic capacity. The business case supported the acquisition of 75% Asian capacity and 25% trans-Atlantic capacity. The Qwest investigation discovered e-mails indicating that a possible intent was to port the trans-Atlantic capacity to Asian capacity.

In a meeting held at or about the time of the transaction, the Qwest CFO (Robin Szeliga), Controller (Mark Schumacher) and Assistant Controller (Bryan Treadway) sought assurances from those responsible for the transaction that Qwest needed the trans-Atlantic capacity to be acquired from Tycom. The principal business need was to carry KPNQwest traffic across the Atlantic. Also, the Tycom capacity was needed to backstop the 360 Network capacity owned by Qwest because of Qwest's concerns regarding 360's viability. Some of the capacity was also leased to Global Crossing under operating lease arrangements.

Qwest does not have a portability put on the Tycom capacity. Although the business case discusses the possibility of porting this capacity for C2C capacity once it becomes available from Tycom, the agreements

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provide for a mutual consent, fair value exchange clause. None of this capacity has been ported as of the date of this memo and neither party has a put.

The Qwest investigation concluded that the trans-Atlantic capacity was acquired for good and valid business purposes. According to Bryan Treadway, Qwest's conclusion was that this transaction was correctly recorded in Q2 2001.

#### Enron

##### *Q3 2001*

During Q4 1999, Qwest sold \$36 million in dark fiber to Enron in a cash transaction. These revenues are not included in the post-merger financial statements. During Q4 2000, Qwest sold in a cash transaction, an additional \$36 million in dark fiber to Enron. In the Q3 2001 transaction, this dark fiber was part of the \$300 million in dark fiber acquired from Enron. Also in Q3 2001, under a separate legal agreement, Qwest sold approximately \$80 million in lit capacity to Enron.

The dark fiber was re-acquired from Enron at 40% of its original price, or approximately \$30 million.

Enron and Qwest were involved in various disputes regarding the dark fiber. Qwest believes this was driven by Enron's desire to divest itself of its dark fiber inventory. Qwest needed the dark fiber for restoration capacity on its network. Partially as a result of this need and partially to settle the disputes, Qwest reacquired the dark fiber at what they continue to believe is a favorable price.

The Qwest investigation confirmed that there was no intent or commitment to reacquire the dark fiber sold. It was an opportunistic purchase in connection with the broader transaction in Q3 2001. Further, Qwest's attorneys have concluded that because Enron felt obligated to "sell" the fiber to Qwest, this confirmed the validity of the original sale to Enron and Enron's acceptance of those assets.

According to Bryan Treadway, Qwest's conclusion was that this transaction was correctly recorded in Q2 2001.

#### 360 Networks

##### *Q3 1999 and Q1 2000*

Pre-merger, Qwest sold dark fiber and conduit to 360 Networks. In separate legal agreements, Qwest also acquired dark fiber from 360 Networks. The revenues and cost of sales are as follows:

|       | Revenues     | Cost of Sales |
|-------|--------------|---------------|
| 1999  | \$73 million | \$20 million  |
| Q1 00 | \$43 million | \$34 million  |

In addition, Qwest received \$14 million in cash from 360 Networks as part of the Q3 1999 transactions.

Subsequent to the sales and in connection with the bankruptcy filings of 360 Network, disputes have arisen regarding these transactions. 360 Networks had not formally accepted the capacity and claimed certain

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incidentals (hand holds and manhole covers) were missing. Qwest claimed it did not receive a substantial part of the capacity to which it was entitled.

In connection with the bankruptcy proceedings of 360 Networks, the parties have agreed to the following resolution.

1. 360 Networks will return to Qwest the following capacity: (1) Lake City to Jacksonville (sold Q1 2000); (2) New Orleans to Jacksonville (sold Q3 1999) and (3) Cleveland to Albany (sold Q3 1999). In return, Qwest will pay 360 Networks \$26 million in cash and grant a metro-fiber IRU to 360 Networks for \$8 million. This \$34 million was the original purchase price of the returned assets.
2. Qwest will allow 360 Networks to abandon its Boston to New York capacity and return the capacity it purchased from 360 Networks in Q1 2000. Qwest will no longer have rights to the capacity but will receive no remuneration. According to Bryan Treadway, this \$18 million loss was reserved for in Q3 2001 when 360 declared bankruptcy.
3. 360 Networks will grant Qwest a lien on all remaining 360 Network capacity rights it owns along with the right to acquire the capacity for one dollar. This will ensure Qwest's capacity rights are secured in any future bankruptcy proceedings or if 360's network is acquired by a hostile buyer.

The proposed settlement will state that neither Qwest nor 360 Networks agree or concede that these are executory contracts, but for purposes of this resolution only they will be treated in a manner similar to executory contracts for bankruptcy purposes. According to Qwest legal counsel, neither party believes these are executory contracts. This stipulation is the most efficient means of completing the settlement by keeping the disputed assets out of the 360 Networks bankruptcy estate.

According to Bryan Treadway, Qwest's conclusion was that this transaction was correctly recorded and the return of assets is a Q2 2002 settlement of commercial disputes between the parties.

#### Flag

#### Q2 2001

Qwest sold Flag capacity for \$20 million and acquired in a separate legal transaction: (1) a one-year lease for \$20 million and (2) an option to acquire a 20-year IRU on newly constructed capacity for \$10 million. The option expires in Q2 2002 and Qwest has not yet exercised its option. Qwest is expensing the \$20 million interim capacity lease over twelve months and is assigning no value to the option because of its uncertain exercise.

Qwest re-considered whether revenue recognition was appropriate at the time of sale. Qwest concluded that even if the non-monetary rules were to apply, revenue recognition was appropriate because it was an exchange of dissimilar assets (an asset for an operating lease). Profit recognition was not an issue because Qwest lost \$3.8 million on the transaction.

According to Bryan Treadway, Qwest's conclusion was that this transaction was correctly recorded in Q2 2001.



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#### MCI/WorldCom

##### *Q2 2001*

Qwest sold an IRU to MCI/WorldCom for \$86 million in a Q2 2001 unilateral cash transaction. During Q2 2001, Qwest also agreed to various amendments to unrelated agreements and commitments from WorldCom under which Qwest received breakage fees. Qwest revisited the fair value of the capacity sale in connection with its investigation and concluded the transaction was priced on an arms-length basis. The capacity was sold to MCI/WorldCom at \$0.045 per DSO mile compared to cash transactions for similar capacity of \$0.053 to \$0.13 per DSO mile in the same quarter.

According to Bryan Treadway, Qwest's conclusion was that this transaction was correctly recorded in Q2 2001.

#### Corvis

##### *Q2 2001*

Corvis acquired optical capacity from Qwest for \$10 million and paid the necessary 25% initial payment for revenue recognition. The gross margin on the transaction was \$5 million. In the same quarter, Qwest increased a purchase order for Corvis equipment by \$10 million. Qwest never accepted the equipment delivered under the purchase order because it did not meet Qwest's quality standards. The purchase order was cancelled. The Qwest investigation concluded that the capacity sale was a separate legal transaction and not dependent upon the possible purchase of equipment.

According to Bryan Treadway, Qwest's conclusion was that this transaction was correctly recorded in Q2 2001.

#### MFN

##### *Q2 2001*

In Q2 2000, Qwest deposited \$67 million with MFN to reserve capacity rights on a network to be constructed by MFN. This was pre-merger. In Q2 2001, MFN acquired Japanese backhaul capacity from Qwest in a unilateral cash transaction for \$16 million. The Qwest investigation concluded these transactions were not related.

According to Bryan Treadway, Qwest's conclusion was that this transaction was correctly recorded in Q2 2001.

#### Sing-Tel

##### *Q4 2000/Q1 2001*

In Q4 2000, Qwest sold capacity to Sing-Tel for \$6 million. The routes were received by Sing-Tel in Q4 and accepted in Q1 2001. In a separate legal transaction, Qwest agreed to acquire routes from Sing-Tel. The routes

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were identified and accepted in Q1 2001. Qwest recognized revenue and margin on this transaction in Q1 2001. The Qwest investigation concluded deferral of revenue recognition until Q1 2001 was appropriate.

#### Network Plus

##### *Q4 2000*

Qwest recognized \$12.2 million in revenue in Q4 2000. All acceptance letters had been received and the capacity delivered. However, Qwest believes the cash was not received until January 10, 2001. This is inconsistent with the Andersen workpapers which show that 100% percent of the cash was received in Q4 2000. The gross margin on the Network Plus transaction was \$7.5 million.

There have been numerous cash receipts from Network Plus and Qwest is unsure whether the January 10, 2001 receipt related to this transaction. As a result, Qwest will stay with its original conclusion that profit recognition was appropriate in Q4 2000. This is consistent with Andersen's testing results in Q4 2000.

#### Teleglobe

##### *Q4 2000*

Qwest sold optical capacity to Teleglobe in Q4 2000 for \$72.8 million. Teleglobe and Qwest also entered into an "Option Agreement." The option agreement states that upon mutual consent, Teleglobe may exchange the routes received and if such a request is accepted by Qwest, Qwest will be responsible for delivering the alternate capacity by a date certain or otherwise be responsible for Teleglobe's cost of interim capacity until the alternate routes are received. The option expired in December 2001 and the routes were never exchanged. Further, Qwest concluded as part of its investigation that Qwest was not compelled to accept the exchange despite the title of the agreement and the penalty provisions for lack of timely delivery were only applicable if Qwest agreed to the exchange. Qwest concluded the existence of the option agreement had no impact on revenue recognition in Q4 2000.

#### Winstar

##### *Q1 2001*

Qwest sold capacity to Winstar for \$40 million and recognized revenues of \$22 million. Revenue was recognized only to the extent of cash received because Qwest was concerned about Winstar's viability. However, other receivables (approximately \$6 million) from Winstar existed at March 31, 2001, calling into question how the cash payment for the IRU should be applied by Qwest. Winstar went bankrupt after the end of the quarter and earnings release but before the filing of the 10Q. Qwest continued to recognize revenue on the transaction and the unrelated receivables were considered in Qwest's bad debt analysis as of March 31, 2001. Winstar was dependent upon a financing arrangement from Lucent that was terminated after the end of the quarter. Prior to recording the sale in Q1 2001, the Qwest controller (Mark Schumacher) called the CFO of Winstar and received assurances as to the soundness of their financial condition and the status of the Lucent

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financing commitment. Qwest also performed an internal credit analysis of Winstar. The Qwest investigation concluded that recording the sale in Q1 was reasonable given the facts and circumstances at the time.

#### KPNQwest

##### Q3 2000

In Q3 2000, Qwest sold KPNQwest 4 STM-1's from Seattle to Tokyo for \$12 million. Qwest received cash upon delivery and acceptance. The gross margin was \$3 million. In a separate legal transaction on October 17, 2000, Qwest purchased 13 STM-1's from New York to London for \$12 million. The timing of the transactions might indicate that this was a structured transaction.

According to Bryan Treadway, Qwest's conclusion was that this transaction was correctly recorded in Q3 2000. The margin was below our PAJE scope and would have reversed prior to yearend.

#### Asset Sales for Service Agreements

##### Q1 2001

During the fourth quarter of 2000, Qwest entered into several transactions in which Qwest sold optical capacity for cash and under separate legal agreements, acquired services or operating lease rights. These transactions were deferred until Q1 2001 because Qwest did not begin receiving the service or access rights until that period. During Q1 2001, Qwest recognized both revenues and profit on the sales of capacity. If these transactions were deemed non-monetary exchanges, recognition of revenues would not be problematic because they constituted the exchange of an asset for a service or operating lease. However, based upon Andersen's revision to its White Paper in February 2002, recognition of profit may be problematic if that interpretation was to be applied retroactively to these transactions. Qwest continues to believe these were separate legal agreements which should be viewed as monetary. However, if they were deemed to be non-monetary, Qwest believes (1) the Andersen interpretation should not be applied retroactively and/or (2) the receipt of cash satisfies the initial investment criteria in SFAS No. 66.

Summarized below are these transactions.

##### *On Fiber*

Qwest sold a \$4 million IRU and recognized gross margin of \$2 million. Qwest received access rights over two years. If deemed non-monetary, approximately 12/24ths of the profit recognition may be deemed appropriate under the new Andersen interpretation. This is under our PAJE listing scope. See also BBO below for aggregate impact.

##### *Telaseon*

Qwest sold \$5 million in dark fiber and recognized a gross margin of \$2 million. In a separate legal transaction, Qwest acquired Ethernet services from Telaseon. Telaseon made a 25% initial payment for the capacity. Telaseon

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defaulted on their remaining payment and the dark fiber was taken back in a December 19, 2001 settlement. The initial payment was retained. Telseon has continued to provide the required Ethernet services substantiating the separate enforceability of the transactions.

According to Bryan Treadway, Qwest's conclusion was that this transaction was correctly recorded in Q1 2001. This is evidenced by Telseon's performance on the Ethernet contract despite forfeiture of its initial payment and asset under the dark fiber contract.

#### **BBO**

Qwest sold an IRU for \$6 million and recognized a margin of \$4 million. In a separate legal transaction, Qwest acquired BLEC access from BBO for 20 years. If deemed non-monetary, the margin may have to be recognized over the twenty-year period in which BBO grants Qwest access to its properties. This amount, when combined with the On-Fiber transaction, would still remain under our PAJE listing scope.

#### **Title Issues**

Qwest has engaged outside counsel to assist in a review of its IRU purchase and sales agreements. The objective of the review was to advise the Company whether it has a reasonable basis to conclude that title/legal ownership will automatically pass for post-EITF 00-11 transactions, or that title/legal ownership will either (1) automatically pass or (2) pass upon payment of a one dollar nominal option for pre-EITF 00-11 transactions. See the general representation letter for the Company's conclusion.

The review identified an isolated exception where capacity was acquired from two telecommunication companies that are now bankrupt. There was not a reasonable basis to conclude that Qwest had the ability to obtain title from these entities and thus could not, in turn, pass title to this capacity to its customers. The companies involved were DTI and FTV.

Qwest identified any and all IRUs it may have sold that could be tainted by this constraint. In lieu of treating the tainted segment as an operating lease (this was generally a Sunnyvale-to-Seattle segment that connected to Seattle-to-Tokyo capacity), Qwest conservatively considered the entire circuit sale tainted. The result was a potential reversal of revenues of \$29 million and \$47 million in 2000 and 2001, respectively, and gross margin of \$10 million and \$27 million in 2000 and 2001, respectively. We will post an appropriate PAJE.

#### **Summary**

On March 26, 2002, I was told by the Qwest CFO (Robin Szeliga) that of the approximately 225 IRU transactions in 1999, 2000 and 2001 investigated, external counsel raised only 8% as having any possible issues. These are the issues raised in this memorandum. Her conclusion was this did not demonstrate a systematic pattern of intentional non-compliance nor did it indicate a material control weakness.

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Mark M. Iwan 1

cc: Richard J. Howell-Andersen Dallas  
Mark Schoppet-Andersen Little Rock  
Richard B. McCune-Andersen Seattle  
Bryan Treadway-Qwest

Tom Stephens

---

From: Hellman, Peter [phellman@nordson.com]  
 Sent: Wednesday, April 10, 2002 11:17 AM  
 Subject: RE: Privileged and Confidential - Qwest Communications Plan

Tom,

Just to let you know, this email had an impact. Robin and Drake called to see what issues, if any, I had.

I asked them why the change in the SEC inquiry  
 Any comments on our reply to the comment letter  
 Any views as to the stock price...\$6.30 today

Response was no big deal, no big deal, no big deal.

I didn't discuss the concept of independent counsel as I think the Directors might want to discuss this first.

I did tell them that it might be good to hear from management and get their view before things hit the tape.

My take was that Joe wanted to know what was behind you email.

Just to keep you in the loop.

Best regards,

Peter

QECX004732

Boise Cascade Corporation  
1111 West Jefferson Street, P.O. Box 50 Boise, ID 83726  
T 208 384 7557 F 208 384 4912

George J. Harad  
Chairman and Chief Executive Officer

**BOISE**

May 6, 2002

Mr. Philip Anschutz  
Chairman of the Board  
Qwest  
1801 California St.  
Denver, CO 80202

Dear Phil:

I am forwarding to you the enclosed letter, which I received on May 1. The writer is apparently under the mistaken impression that I am a member of the board at Qwest.

Yours Very Truly,

  
George Harad  
GH/gb

QECX004909

George Harad  
Qwest Board of Directors  
3675 W. Quail Heights Ct.  
Boise, ID 83703

April 25<sup>th</sup>, 2002

Dear Mr. Harad:

I am asking that you fire Joe Nacchio and Drake Tempest for cause. Qwest has violated security laws, FCC rules, and some state commission rules.

Joe and Drake did not order specifically subordinates to do unethical and/or illegal acts. However, they set goals and targets that were impossible to attain without engaging in unethical and/or illegal acts. Basically, subordinates were given the choice of attaining these targets or being fired. Unfortunately, at least a dozen Qwest employees chose to break the law rather than face dismissal.

The SEC is searching in some of the right places where the violations occurred. The people involved were at least smart enough to do most things orally and left a very sparse written trail. It will either take the SEC getting lucky or employees breaking ranks in order for the SEC to uncover the "smoking guns".

Qwest employees and investors have lost faith in Joe. If this were a democracy, Joe would be voted out of office by a margin of 99 to 1. It will be impossible to turn around the company with a demoralized angry employee body. Some employees are actively working toward undermining Joe. There is even a "Joe Must Go" campaign. Most Qwest investors have already voted with their feet. Joe and Drake have presided over one of the largest destruction of shareholder value in the history of American business. Calpers has named Qwest as the worst managed business in America. Blaming the economy for Qwest's problems is a bunch of bunk.

Joe and the current senior management team have been directly responsible for several billion dollar blunders, such as the Cyber Centers and Bell South stock deal. Many of these blunders are being hidden or glossed over. If you are not getting honest information about these incidents, I recommend that you talk to some lower level managers.

Please consider your own liability. This letter shall serve notice to you that illegal things have been done at Qwest. On the advice of my lawyer, I am not going to include the specifics in this letter. I am handling it in this manner because if I listed the specifics, then you would have to disclose the information in the depositions from current lawsuits. If you fail take action, I will make sure this letter and specific information gets into the hands of the proper authorities and the hands of the lawyers who have filed class action suits against Qwest. Do the courageous thing and do the right thing, get rid of Joe Nacchio and Drake Tempest before they bankrupt the company and you. I am assuming that you learned something from Enron.

Sincerely,  
Michael

QECX004910



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**From:** Rana, Yash  
**Sent:** Thursday, June 21, 2001 12:31 PM  
**To:** 'Philip F. Anschutz (E-mail)'; 'Linda G. Alvarado (E-mail)'; 'Craig R. Barrett (E-mail)'; 'Hank Brown (E-mail)'; 'Tom Donohue (E-mail)'; 'Jordan L. Haines (E-mail)'; 'Cy Harvey (E-mail)'; 'Hellman Peter S. (E-mail)'; 'Vinod Khosla (E-mail)'; 'Marilyn C. Nelson (E-mail)'; 'Frank Popoff (E-mail)'; 'Craig D. Slater (E-mail)'; 'Tom Stephens (E-mail)'  
**Cc:** Nacchio, Joe; Tempest, Drake  
**Subject:** Qwest Press Release and Released Stories

To the Qwest Board:

As we discussed with the Audit Committee yesterday, Morgan Stanley issued a report regarding certain accounting matters. We issued a press release, hosted a conference call and filed an Form 8-K with the SEC with a detailed response to the report. Several analysts have also issued notes refuting Morgan Stanley's claims.

For your information, attached is our press release regarding the Morgan Stanley report, the report itself and related stories from this morning's papers. Please let me know if you would like copies of our Form 8-K or any of the other analysts' notes.

Please call me with any questions.

--Yash



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Report.pdf



Articles.pdf

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Qwest Communications International Inc.  
1801 California Street, Suite 5100  
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THE DENVER POST  
Thursday, June 21, 2001

# Qwest calls report 'irresponsible'

## Morgan Stanley analyst doubts profit projection

By Kris Hudson  
and Aldo Strilli  
Denver Post Business Writer

Qwest Communications Inc. on Thursday called a report by Morgan Stanley analyst Dean Willer & Co. "irresponsible" and "unsubstantiated." The report, which was published in the Wall Street Journal, projected that Qwest's earnings per share would drop 11 percent in 2001, from \$1.14 to \$1.02.

Qwest also reiterated its five-year financial projections of 15 percent annual revenue growth, 20 percent annual earnings growth and a 20 percent increase in operating leverage. The company said it was "disappointed" by the report's "unsubstantiated" projections and "unsubstantiated" behavior from a major investment bank.

Qwest also reiterated its five-year financial projections of 15 percent annual revenue growth, 20 percent annual earnings growth and a 20 percent increase in operating leverage. The company said it was "disappointed" by the report's "unsubstantiated" projections and "unsubstantiated" behavior from a major investment bank.

Qwest also reiterated its five-year financial projections of 15 percent annual revenue growth, 20 percent annual earnings growth and a 20 percent increase in operating leverage. The company said it was "disappointed" by the report's "unsubstantiated" projections and "unsubstantiated" behavior from a major investment bank.

Qwest also reiterated its five-year financial projections of 15 percent annual revenue growth, 20 percent annual earnings growth and a 20 percent increase in operating leverage. The company said it was "disappointed" by the report's "unsubstantiated" projections and "unsubstantiated" behavior from a major investment bank.

Qwest also reiterated its five-year financial projections of 15 percent annual revenue growth, 20 percent annual earnings growth and a 20 percent increase in operating leverage. The company said it was "disappointed" by the report's "unsubstantiated" projections and "unsubstantiated" behavior from a major investment bank.

Qwest labeled each of Morgan Stanley's findings as "inaccurate and unsubstantiated." The Securities and Exchange Commission's guidelines allow companies to dispute analyst projections for a year after the merger's completion, Qwest chief financial officer Robin Seale said. The company said it was "disappointed" that Flannery cited were fully disclosed in public documents, the company said.

Qwest added that the SEC has reviewed its financial statements and never found any irregularities, and did not raise any allegations of illegal activities. The company justified its capitalization of debt as a legitimate investment vehicle, and said it would help Qwest re-enter the long-distance market.

Seale also countered that a recently completed independent appraisal of Qwest's interest in Sprint Nextel put the value at \$4.8 billion, far above the \$4.4 billion value cited in the report. Therefore, he said, the report's value will require a more substantial write-down. Nacchio said the fiber-optic network will likely be a long-term, multi-year investment. "That is why the value is a lot higher than current market price," he said.

Regarding the pension, the company re-evaluated its return assumptions and found them to be "conservative." The company said it was "disappointed" by the report's "unsubstantiated" projections and "unsubstantiated" behavior from a major investment bank.

Stallings once a year, Stallings said. The report was "irresponsible" and "unsubstantiated" and based on a more robust stock market a year ago. Morgan Stanley declined to make Flannery available for comment. Morgan Stanley's investment bank defended its analysis. Qwest's stock sank to a 52-week low of \$28.39 after the report's release on Wednesday morning but rebounded after the company rebutted the report's findings.

"I think Qwest did a good job of addressing any abnormalities," said Jim Linschman, an analyst with Morgan Stanley. "At the end of the day, Flannery is pretty well-known. And frankly, it's just a lot of nonsense."

Another analyst noted that some of the report's findings were proven from publicly available documents. Rather, it would require an internal audit of the company's financial records. Nacchio implied during the conference call that Morgan Stanley's criticism of Qwest comes when the investment firm has "strong buy" ratings on Qwest competitors now preparing to announce merger events. The CEO also pledged not to talk to Morgan Stanley again.

"Innkeepers on our integrity are not going to be tolerated, irrespective of the circumstances, including what I considered to be a brazenly branded firm like Morgan Stanley," Nacchio said.

leave the company, the state's largest employer, short of funds to pay for its pension obligations. Flannery cut his estimates for 2001 earnings per share to 81 cents from 91 cents, and projected a drop to 72 cents from 84 cents next year.

"Our analysis leads us to the conclusion that the company has been overvalued in the market. It could have an important bearing on the sustainability of its future earnings growth and capital structure," the report reads.

Shareholders could also suffer down the road because Qwest, and U.S. West before it, made aggressive investments in its network and its pension plans. Falling to meet these expected returns would

# Qwest chairman calls report 'hogwash'

Nacchio fires back  
after Morgan Stanley  
says earnings inflated

By Jeff Smith  
News Staff Writer

Qwest Chairman Joseph Nacchio on Wednesday demanded "hogwash" a report by a prominent New York investment banking firm that suggested Qwest has used questionable accounting practices to inflate earnings.

Morgan Stanley said Qwest effectively boosted income after the merger with U.S. West last year by "quitting" writing down \$2.1 billion of assets, including a pension fund investment return and spreading the cost of millions of dollars over a number of years.

Now, the report said, Qwest is likely to substantially write down

the value of its investment in a European venture called KPNQwest.

The effect of the accounting practices, according to Morgan Stanley analyst Simon Flannery, is that future earnings may be hurt. He cited earnings of over \$1 billion in 2002 and 2003 by as much as 28 percent, and downgraded the stock from "outperform" to "neutral."

Nacchio, in his second conference call to investors, called the unusual step to attack the investment banking firm.

"Innuendo on our integrity are

not going to be tolerated, irrespective of who makes them," Nacchio said. He said Qwest's chief financial officer said the report was "inaccurate and unsupportable" and "hogwash."

"For a firm like Morgan Stanley to take this position on Qwest and, in the same breath, to have strong buy ratings, is a complete contradiction," Nacchio said Wednesday that he would make no additional comment.

Nacchio reiterated that Qwest is in a position to meet its revenue projections for 2001. He said Qwest stock dropped more than 9 percent in early trading Wednesday, but mostly recovered to close at \$30.02 a share, down \$1.25.

Qwest's earnings were unusually perplexed by the report because it followed a number of discussions with Flannery, in which Qwest had disputed his analysis of its accounting practices, said Wednesday that he would have no additional comment.

Steliga said Qwest's investment in KPNQwest is being written down this quarter from \$7.9 billion to \$4.5 billion, but the costs of the writedown will be amortized over 40 years.

## Qwest Shares Fall as Report Raises Questions

By DEBORAH SOLOMON  
Staff Reporter of THE WALL STREET JOURNAL

A report questioning the accounting practices of Qwest Communications International Inc. sent the stock of the Denver telecommunications company down 4% to near a 52-week low.

The analyst report, by Morgan Stanley, said Qwest took steps to boost its earnings after merging with U.S. West Inc. by writing off some tangible net assets. In doing so, the Morgan Stanley report said, Qwest created a great deal of its software expenditures as assets, and increased the expected return on its pension-fund assets. The firm also downgraded shares of Qwest to "neutral" from "outperform."

Joseph P. Nachio, Qwest's chief executive, blasted the report and said Qwest's financial reports contain "no accounting issues or improprieties" and he reaffirmed the company's guidance through 2003.

The report, written by two Morgan Stanley analysts and a professor of accounting at Columbia University, said Qwest "has taken a number of financial actions that could have an important bearing on the sustainability of future earnings growth and capital needs."

"These unsupportable assertions about our ability to generate future cash growth are inaccurate and unsupportable," Mr. Nachio told industry analysts in an afternoon conference call.

Qwest officials acknowledged that the Securities and Exchange Commission raised questions about its accounting of the merger and related disclosures after reviewing forms Qwest filed with the SEC. Qwest said the company received a comment letter from the SEC seeking more information after its third quarter 2000 financial statement. In the wake of that request, Robin Szelliga, Qwest's chief financial officer, said the company "changed our disclosure slightly for our 10-K" and "closed that issue out" with the SEC.

Analyst Simon Flannery, co-author of the report, said it was meant to be a tool "to analyze the long-term prospects for the company." The rating change reflected concerns "about the outlook for industry and the economy," he said.

Among other things, the report said Qwest hasn't disclosed it wrote off roughly \$3.1 billion of assets and said Qwest should have noted any possible impairment charge on June 30, 2000, when the acquisition closed.

In yesterday's call, Qwest's Ms. Szelliga said the company didn't try to hide the write-down of tangible assets and said those adjustments will be finalized and disclosed in the second quarter ending June 30.

Ms. Szelliga said the issues Morgan Stanley raised don't affect revenue or earnings before interest, taxes, depreciation and amortization. However, "as a matter of simple arithmetic, the items affect earnings per share and cash EPS," she said in a statement.

In 4 p.m. New York Stock Exchange composite trading, Qwest shares fell \$1.25 to \$30.92, near the 52-week low of \$30 each.



NEWS

**QWEST COMMUNICATIONS AFFIRMS FINANCIAL GUIDANCE**

*Company Says Morgan Stanley Report Is Inaccurate and Its Conclusions are Wrong*

(Note—There will be a noon (MDT) conference call today for the media and investors to discuss this news release. Details about the call at the end of this release.)

**Denver, June 20, 2001** – Qwest Communications International Inc. (NYSE – Q) today again confirmed its financial guidance for 2001 and the period 2000 to 2005 in light of an inaccurate and misleading report issued by Morgan Stanley. During the five-year period, Qwest expects to grow revenue at least 15% and EBITDA (earnings before interest, taxes, depreciation and amortization) approximately 20%, each on an annually compounded basis. Qwest also confirmed that it does not expect its capital expenditures to exceed \$9.2 billion in 2001. It is also looking at ways to further reduce capital expenditures to between \$8.8 billion and \$9.0 billion for 2001, and to as low as \$8.0 billion for 2002.

Qwest said that a Morgan Stanley report issued earlier today does not present any information or analysis that has any bearing whatsoever on the sustainability of its future earnings growth or capital needs. The Morgan Stanley report addresses several technical issues relating to the manner in which Qwest has accounted for its acquisition of U S WEST on June 30, 2000. The report does not disclose any accounting treatment that Qwest has not previously disclosed in its public filings nor does it suggest that any accounting treatment by the company is improper. Qwest believes that Morgan Stanley's analysis, from an accounting point of view, is incorrect and its conclusions about Qwest's business and prospects are wrong.

Qwest said that its disclosure of the merger with U S WEST and the purchase accounting is fully adequate. The staff of the Securities and Exchange Commission reviewed Qwest's annual report on Form 10-K as of December 31, 1999 and 2000, and its quarterly report on Form 10-Q for the quarter ended September 30, 2000. The review resulted in various comments being raised by the staff regarding Qwest's accounting for the merger and related disclosures. The company has responded to those comments and the issues raised have been cleared to the satisfaction of the SEC staff.

"Qwest has already fully disclosed all the issues raised by Morgan Stanley," said Robin Szeliga, Executive Vice President and Chief Financial Officer. "Their report is just an

MORGAN STANLEY DEAN WITTER

Comment Page 1

Equity Research  
North America

United States of America

Telecom - Wireline

## Qwest Communications

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## DOWNGRADING TO NEUTRAL

Price (June 19, 2001): \$31.27  
Price Target: n/a  
52-Week Range: \$58-29

## WHAT'S CHANGED

2002(E) EPS to \$0.61 from \$0.78  
2003(E) EPS to \$0.75 from \$1.04

## Change in Recommendation

June 20, 2001

## Qwest: Listening to the 10-K

## • Accounting review highlights new insights

A review of Qwest's recent 10-K and previous financial reports provides insights into past and future earnings power.

## • Significant net tangible asset write off

We believe that as part of the merger with US West, Qwest quietly wrote off \$2.1 billion in tangible net assets last year.

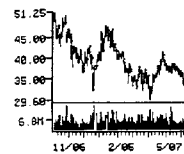
## • Other items also affect earnings quality

In this note we also detail a series of other items including significant capitalization of expenses and changes in pension assumptions.

## • Downgrading to Neutral and cutting estimates

We are lowering our rating from Outperform to Neutral and cutting our long term forecasts to reflect a lack of visibility stemming from these issues and industry weakness.

## Stock Price Performance



Source: ILLX

## Company Description

Qwest Communications is a full service telecommunications provider of nationwide voice and data local and long distance services.

| FY ending Dec 31:             | 2000A  | 2001E  | 2002E | 2003E |
|-------------------------------|--------|--------|-------|-------|
| EPS (\$)                      | 0.59   | 0.58   | 0.61  | 0.75  |
| Prior EPS Est. (\$)           | -      | -      | 0.78  | 1.04  |
| Consensus EPS Est. (\$)       | -      | -      | -     | -     |
| CEPS (\$)                     | 1.25   | 1.24   | 1.27  | 1.39  |
| P/E                           | 53.0   | 53.9   | 51.3  | 41.7  |
| P/E Rel. to (local index) (%) | -      | -      | -     | -     |
| P/CE                          | 25.0   | 25.2   | 24.6  | 22.5  |
| Price/Book                    | -      | -      | -     | -     |
| EV/EBITDA                     | 9.6    | 8.3    | 7.4   | 6.6   |
| Yield (%)                     | 0.1    | 0.0    | 0.0   | 0.1   |
| <hr/>                         |        |        |       |       |
| Market Cap (\$ m)             | 51,949 | 2/1/01 | 2000  | 2001E |
| Enterprise Value (\$ m)       | 70,861 | actual | curr  | prior |
| Debt/Cap (03/01)(%)           | 29.9   | Q1     | 0.14  | 0.13A |
| Return on Equity (03/01)(%)   | 2.4    | Q2     | 0.15  | 0.14E |
| L-T EPS Grth. ('01 - '06) (%) | 20.7   | Q3     | 0.14  | 0.14E |
| P/E to Growth                 | 1.93   | Q4     | 0.16  | 0.17E |
| Shares Outstanding (m)        | 1661.3 |        |       |       |

E = Morgan Stanley Research Estimates

Please refer to important disclosures at the end of this report.

FOIA Confidential Treatment Requested by Qwest Communications Int'l Inc.

QEC 206460

## Qwest: Listening to the 10-K

### Summary and Investment Conclusion

We are downgrading Qwest from Outperform to Neutral, and are also lowering our long-term growth forecasts for the company. These actions arise from a deteriorating economic and industry environment and from greater uncertainty stemming from accounting decisions made since the Qwest merger with US West. We continue to see more evidence of slower growth for the telecom industry. And while we believe Qwest will likely be one of the long-term survivors in the telecom sector, we advise investors to be cautious for now.

We have left our 2001 estimates largely unchanged following Qwest's repeated reiterations of its guidance. In light of the issues enunciated above, we have, however, lowered our longer-term outlook. For 2002 we have lowered our revenue growth forecast from 14.7% to a still very healthy 13.1%, for a total revenue estimate of \$24.4B. We also lowered EBITDA estimates by 6% to \$9.5B, a 39% margin. Cash EPS falls to \$1.27 from \$1.44. For the 2001 to 2006 period we now forecast revenue growth of 12% vs. 14% previously; EBITDA growth of 11% vs. 16% previously, and cash EPS growth of 11% vs. 19% forecasted earlier. Exhibit 1 summarizes our new forecast.

### Details

We have recently conducted an extensive review of Qwest's financial statements. This report was prepared with the assistance of Trevor Harris, professor of accounting at Columbia University, and currently head of Morgan Stanley's valuation and accounting research group, and his team. Our analysis leads us to the conclusion that the company has taken a number of financial actions that could have an important bearing on the sustainability of future earnings growth and capital needs. While some of the items will be discussed in qualitative terms, Exhibit 2 summarizes

the impact on earnings of those accounting items for which we could estimate their impact on full-year 2000 earnings.

We believe four primary and several secondary items warrant close investor attention (Exhibit 3). In all Morgan Stanley's *Apples-to-Apples* work, we have focused on what financial statements tell us about the economic performance of a company rather than what the GAAP rules may or may not require. As with all measures of accounting, the conclusions one might draw from the figures about the implications on expected profitability are subject to interpretation. We present the facts as we understand them, and add our own interpretation of the implications.

### Exhibit 1

#### Qwest - 2001-2006 Forecast

| (mm)     | 2001E  | 2002E  |        | Growth ('01-'06) |     |
|----------|--------|--------|--------|------------------|-----|
|          |        | NEW    | OLD    | NEW              | OLD |
| Revenue  | 21,593 | 24,418 | 24,772 | 12%              | 14% |
| EBITDA   | 8,549  | 9,535  | 10,131 | 11%              | 16% |
| GAAP EPS | \$0.58 | \$0.61 | \$0.78 | 21%              | 33% |
| Cash EPS | \$1.24 | \$1.27 | \$1.44 | 11%              | 19% |

Source: Morgan Stanley Research.

### Exhibit 2

#### Estimated EPS Impact of Key Items

| (\$/share)                        | 2000   |
|-----------------------------------|--------|
| Pension Plan                      | \$0.15 |
| PP&E                              | 0.06   |
| Capitalized Interest and Software | 0.07   |
| Total Estimated Impact            | \$0.28 |
| Reported GAAP EPS                 | 0.59   |
| Reported "Cash" EPS               | 1.25   |

Source: Company data; Morgan Stanley Research Estimates

All estimates are adjusted at 33%, and we have assumed capitalized software and interest would be amortizable over 5 years.

Qwest Communications - June 20, 2001

Please refer to important disclosures at the end of this report.

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QEC 206461

## Exhibit 3

## Summary of Key Issues at Qwest

| Issue   | Comments  |
|---|---|
| Write-downs in Adjustments of the Purchase Price Allocation | As part of its merger with US West, we believe Qwest wrote off approximately \$2.1 billion (pre tax) of (old) Qwest tangible net assets. This write-off would have been separate from the \$1.75 bn in merger-related and other charges reported in Q's 12/31/00 earnings and a further \$209 million charge reported in 1Q01. Although we do not have full details, we estimate that \$1.0 bn of the incremental write-off was for PP&E (including about half for LCI assets), and \$1.1 bn for provisions concerning such items as contracts and other legal liabilities. For an adjustment in the purchase price under US GAAP, these obligations and asset impairments for old Qwest had to exist at the date of the merger, yet it appears to us the adjustments were only made after this date and remain largely undisclosed. In the purchase price allocation adjustments made between 6/30/00 and 9/30/00, there is also an additional \$1.6 bn increase in deferred taxes from the write-up of separable intangible assets, as required by U.S. GAAP. |
| KPNQwest Write-Down   | We expect Qwest will need to take a substantial write down to the value of its 44.5% investment in KPN Qwest. The investment is currently carried on the books at approximately \$7.4bn, the value at the date of the merger, although at current market prices for KPN Qwest the value in the market is closer to \$2bn. While the market is clearly cognizant of this possibility, the potential write down is sizable. The KPN Qwest assets were written up as part of the "reverse merger" accounting, so any write-down taken before June 30, 2001 could require a further adjustment to the purchase price allocation. This would in turn raise a new question about whether goodwill will need to be adjusted for impairment under the new FASB rules that we expect will become effective on July 1 2001.   |
| Pension Assumptions   | Qwest (via U.S. West) increased the discount rate on pension liabilities to 8% from 6.75% and the return on plan assets to 9.4% from 8.8% for its fiscal year end 2000. This had the effect of raising the pension benefit recorded in operating income. While these return assumptions are within the range of those used by other Bell companies, the accounting changes that help income are unlikely to be sustainable, especially as actual returns on pension assets have turned negative, and as Qwest has increased pension benefits payable in 2002 and 2003.  |
| Capitalized Software  | Accounting rules require software costs to be capitalized. The level of costs capitalized at Qwest is high relative to its competitors. In 1999 cumulative capitalized software for US West appears to have been \$800mn, and we understand the 1999 amount for (old) Qwest was approx \$170 mn (net). Only \$114mn of the capitalized software was written off as a result of the merger, and at 12/31/00 we estimate Qwest's gross capitalized software to be approximately \$1,640 mn. This suggests approximately \$760 million in incremental capitalized software costs, which would seem a higher multiple of sales than in its competitors. Qwest is expected to capitalize an additional \$600mn in 2001. Over-capitalization leads to higher current earnings, when the cash is being spent, but depresses future earnings.   |

Source: Qwest public filings, MS Research

Qwest Communications - June 20, 2001

Please refer to important disclosures at the end of this report.



#### 1 - Write-offs in purchase price allocation

The most important finding in our study relates to the somewhat arcane art of purchase accounting. Under U.S. GAAP, a company has 12 months from the closing of a merger to finalize the purchase price allocation. This allows the acquiring company the opportunity to assess the fair-values of the acquired net assets once it gets into the target and learns the details. These adjustments cannot be made for changing business conditions that occur after the completion of the merger.

In this case, however, while Qwest is the legal acquirer, the accounting was done as a "reverse acquisition," so that in accounting terms, US WEST was deemed to be the acquirer. This means, in essence, that under US GAAP, the purchase price allocation and adjustments relating to the merger are concerned with the pre-acquisition net assets (tangible, intangible, and other identifiable assets and liabilities) of Qwest, with the balance being attributable to goodwill.

Our analysis shows that between 6/30/00 and 12/31/00 there was a \$3.1 billion after-tax reduction in the tangible net assets originally recorded at the date of the merger. On a pre-tax basis, we believe this consists of the following items:

1. PP&E write down of about \$1 billion (pre-tax).
2. Additional accruals of \$1.1 billion (pre-tax)
3. An incremental deferred tax liability of \$1.6 billion arising as a result of tax-effecting the write-up of identifiable intangible assets, which we believe occurred at 9/30/00. This deferred tax provision is required under US GAAP.

Our calculations are based on a review of documents filed with the SEC starting with the S-4 filed 9/19/99, and subsequent 10Q and 10K filings. The exhibits below summarize the key elements of these filings. At 6/30/00, the company identified total tangible net assets of \$11.1 billion, about \$3.7 billion from the acquisition and a \$7.4 billion value for KPN Qwest. By the time the 10K was filed, tangible net assets were just \$8.0 billion, or \$3.1 billion lower than previously stated.

The \$3.1 billion write-down of tangible net assets strikes us as unusual, given the apparent lack of disclosure of details concerning the adjustment and the potentially significant impact on reported results. In order for the write-off in

PP&E to be adjusted in the purchase price allocation, the fair values of Qwest assets and any possible impairment (based on fair value) would have to be unknown or not ascertainable at 6/30/00. This is because of the "reverse acquisition" character of the merger. While Qwest was a stand-alone entity it could avoid an impairment charge under current US rules (FAS 121) if the assets were in operation and generating any cash flow. However, on the date of the acquisition any possible impairment should be estimated and recorded, as the company should have been aware of a need to write down the book value to fair value at 6/30/00. The full fair value exercise was apparently only undertaken after the filing date of the 6/30/00 10-Q.

There are several important implications for investors in the apparent need for a write-off of Qwest's PP&E at 6/30/00. First, by reducing gross plant, the ongoing depreciable asset base drops, cutting perhaps \$100 million annually from the depreciation charge and boosting earnings by about \$0.06 per share — a significant write off. At 3/31/00, the last separate filing by Qwest, net PP&E was stated at \$4.9 billion. Thus, some 20% of PP&E was apparently written off by this charge. A significant portion of the write off may relate to assets purchased as part of the acquisition of LCI International back in June 1998. However, we estimate that the tangible net assets of LCI totaled less than \$400 million at the time of purchase.

Just as important for investors is the question of the true earning power of the old Qwest assets, given that a substantial portion was not written off even though it may well have been economically impaired at 6/30/00. Exhibit 2 gives our estimate of the extent of the impact of these changes for the year 2000.

The balance of the net tangible asset write-down appears to represent a series of provisions and accruals totaling some \$1.1 billion gross, or approximately \$720 million net of taxes. This relates to various contracts and other legal accruals. Once again, under GAAP purchase accounting rules for reverse acquisitions, to be part of the purchase price adjustment the economic obligations or losses had to exist at 6/30/00 but Qwest had to be either unaware they existed or unable to estimate any value for them. Our interpretation of the 10K suggests that these accruals appear as accrued expenses in the other category, because "other" current liabilities in 2000 increased by \$1.54 billion from 12/99 (just U S WEST) to 12/00.

*Qwest Communications – June 20, 2001*

Please refer to important disclosures at the end of this report.

These charges are entirely separate from similar provisions included as part of the \$1.752 billion merger-related and other restructuring charges taken at the time.

#### Impact of purchase price adjustments

There are two clear impacts from the apparent write off of tangible assets late last year. The first is one of earnings visibility. These write-offs are significant in scale in relation to the operations of Qwest prior to the merger. The adjustments directly address the issue of quality of earnings.

The second impact is one of disclosure. Knowledge of these adjustments helps investors understand Qwest's earnings power and financial position. From our point of view, this is information investors would find useful.

From a profit and loss point of view, the reduction in depreciation and the use of accruals should have the impact of increasing earnings. While this may help to maintain short-term earnings and even EBITDA growth within the company's current projections, it will not be an accurate reflection of the earnings power of the company's underlying assets, and makes future visibility more opaque, in our view.

We summarize the changes in the purchase price allocation over time in Exhibit 4 (Exhibits 5-7 detail the movements; we highlight in *italics* the changes in tangible net assets). The apparent reclassification of Qwest's stake in KPN Qwest from a separately stated asset first to intangibles and then to the tangible net assets category makes comparisons difficult.

| Exhibit 4<br>Summary of the Adjustments |                               |   |   |                     |                  |  |
|---|-------------------------------|---|---|---------------------|------------------|--|
| Description                             | Pro Forma<br>S-4/A<br>9/17/99 | Old Qwest<br>Pre-acquisition 10Q<br>3/31/00 | Consolidated<br>Post-acquisition 10Q<br>6/30/00 | 10-Q<br>9/30/00     | 10-K<br>12/31/00 |  |
| Exhibit                                 | -                             | -   | 5   | 6                   | 7                |  |
| Purchase price                          | \$27.7                        | NA  | \$40.0  | \$40.0              | \$40.0           |  |
| Investment in KPN Qwest                 | 0.3 <sup>1</sup>              | 0.572                                       | 7.4   | Not stated          | Not stated       |  |
| Intangibles - Specified                 | 0.0                           | -   | Not stated                                      | 11.5 <sup>2</sup>   | 4.1              |  |
| Tangible net assets                     | 3.7 <sup>2</sup>              | 1.790                                       | 3.7   | 2.6 <sup>3</sup>    | 8.0 <sup>3</sup> |  |
| Goodwill                                | 23.7                          | 3.263                                       | 29.0  | 27.9                | 27.9             |  |
| Other                                   | -                             | 1.450 <sup>3</sup>                          | -   | -                   | -                |  |
| Total                                   | \$27.7                        | \$7.075                                     | \$40.1  | \$42.0 <sup>3</sup> | \$40.0           |  |

Source: Company Data and Morgan Stanley Research estimates. <sup>1</sup>Pre-IPO book value. <sup>2</sup>Book value of Qwest's net assets stated at \$2.7 bn in S-4/A. <sup>3</sup>Probably identifiable intangibles. <sup>4</sup>The \$11.5 is attributed to "product technology, customer lists, trademarks, assembled workforce and premium on investment in KPNQwest." If the investment is still at \$7.4 billion the intangibles total is \$4.1 billion. <sup>5</sup>KPNQwest seems to have been reclassified to tangible. Assuming it is still at \$7.4 bn this leaves \$0.6 bn as the total for tangible net assets. Attributing the \$2.0 bn excess allocation at 9/30/00 suggests this adjustment occurred at 9/30/00.

#### Exhibit 5: Purchase Price Allocation from Qwest June 30, 2000 10-Q (excerpt from SEC filing)

A preliminary allocation of the purchase price has been made to certain identified tangible and intangible assets and liabilities of Qwest, based upon information available to management at the date of the preparation of the accompanying financial statements. Upon completion of an appraisal and further analysis, a final allocation will be made that may include certain in-process research and development projects, other intangible assets, such as customer relationships and other tangible assets and liabilities. *The preliminary purchase price allocation is as follows: (i) \$3.7 billion to tangible assets and liabilities, net; (ii) \$7.4 billion to Qwest's investment in KPNQwest N.Y. ("KPNQwest"); and (iii) \$29.0 billion to goodwill,*

*which will be amortized over 40 years. We will complete the final purchase price allocation within one year from the acquisition date. The actual results of operations will differ, perhaps significantly, from the pro forma unaudited results of operations presented below because of a variety of factors, including access to additional information, changes in value not currently identified and changes in operating results between the date of the pro forma financial information and the date the Merger was completed.*

#### Exhibit 6: Purchase Price Allocation from September 30, 2000 10-Q (excerpt from SEC filing)

A preliminary allocation of the purchase price has been made to certain identified tangible and intangible assets and liabilities of Qwest, based upon information available to management at the date of the preparation of the

Qwest Communications - June 20, 2001

Please refer to important disclosures at the end of this report.

accompanying financial statements. *The preliminary purchase price allocation was as follows: (i) \$2.6 billion to tangible assets and liabilities, net; (ii) \$11.5 billion to identified intangibles, including product technology, customer lists, tradenames, assembled workforce and the premium on our investment in KPNQwest N.V.; and (iii) \$27.9 billion to goodwill.* The amounts allocated to identified intangible assets and goodwill are being amortized over periods ranging from 3 to 40 years.

**Exhibit 7:**

**Purchase Price Allocation from December 31, 2000 10-K**  
(except from SEC filing)

The Merger has been accounted for as a reverse acquisition under the purchase method of accounting with U S WEST being deemed the accounting acquirer and Qwest the acquired entity. The total value of the consideration was approximately \$40 billion, which has been allocated to the identifiable tangible and intangible assets and liabilities of Qwest. *The preliminary purchase price allocation was as follows: (i) \$8.0 billion to tangible assets and liabilities, net; (ii) \$4.1 billion to identified intangibles, including product technology, customer lists, tradenames and assembled workforce; and (iii) \$27.9 billion to goodwill.* The amounts allocated to identifiable intangible assets and goodwill are being amortized over periods ranging from 3 to 40 years. The allocation of purchase price is preliminary and may change upon completion of an appraisal currently being performed on the acquired assets and liabilities of Qwest. The effect of any such change is not expected to be material.

**2 - KPN Qwest valuation**

We believe it is likely that Qwest will need to take a substantial write down to the value of its 44.5% investment in KPN Qwest. While write-downs on investments are not unusual for the industry, Qwest's stake in KPN Qwest was originally included as part of the purchase price for the merger, so any write-off to the investment could have an impact on goodwill charges going forward. The company currently has its stake valued at \$7.4 billion on its balance sheet based on the market value when the deal closed at 6/30/00. Because new FASB rules concerning amortization and impairment analysis of goodwill are anticipated to go into effect July 1, this may require an impairment charge.

Since the acquisition, the stock price of KPN Qwest, like that of most emerging carriers, has fallen sharply. At 6/30/00 the stock closed at \$39.62, but recently traded at \$8, a drop of 80%. Applying this same proportionate decline to the balance sheet asset would produce a write off of around \$6 billion. Any impairment would be based from a fair

value that could differ from market value, of course, given Qwest's significant stake. Any write off by the end of the second quarter could possibly be treated as a reallocation of the purchase price, if it can be argued that the fair value at 6/30/00 was actually less than \$7.4 bn, which would have the effect of increasing goodwill and reducing investments. This would in turn increase the reported goodwill amortization from 7/1/00 through to the date of adoption of the new goodwill standard.

In a related point, we note that Qwest has not provided deferred tax on this asset. Assuming the \$7.4 billion value of KPN Qwest is appropriate, then deferred tax and goodwill would be understated by some \$2.8 billion. Qwest says it is not accruing the deferred tax on the asset because it is a non-US investment that the company plans not to sell and repatriate funds to the US. Although this is fine, it suggests that Qwest would not be able to tax-effect any write down.

**Impact of KPN Qwest valuation**

The expected write down of the KPN Qwest stake would substantially reduce the disclosed tangible assets of Qwest. We believe the market clearly understands the diminution in value of the KPN Qwest stake, but the scale of the write-down and the impact on balance sheet ratios could still be significant.

**3 - Changes in pension assumptions**

Like the other Baby Bells, U S WEST has enjoyed a substantial pension surplus. This has allowed these companies to record substantial pension credits in recent years, which have helped boost reported operating earnings. While the surplus exists, and GAAP requires the pension adjustment, the scale of the adjustment can be significantly affected by changes in assumptions about plan returns and discount rates.

For 2000 Qwest (via U S WEST) revised the discount rate used to discount the value of future obligations from 6.75% to 8% (versus a Bell average of 7.75%). This has the effect of reducing the present value of the future obligation. The new discount rate is based on a representative corporate bond rate. At the same time, Qwest raised the expected return on plan assets from 8.8% to 9.4% (vs. a Bell average of 8.9%) despite the recent turmoil in the markets. While other telecom companies have similar assumptions, Qwest (U S WEST) has moved from having the most conservative assumptions used by the phone companies to among the least conservative.

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Investors should note that a recent labor agreement provided back-end-loaded salaries and benefits. Salaries rise 3.5% this year, but 5% in 2002. This will put added pressure on 2002 earnings. Modest salary increases contrast with generous pension enhancements. Pensions are slated to increase by 6% in 2002 and 10% in 2003.

#### Impact of Pension Accounting

The recent changes in assumptions put Qwest's rates above those of the other three Baby Bells. In 2000, Qwest recorded a net pension credit of \$405 million (or \$0.15 per share (after tax), a dramatic swing from the \$8 million pension cost recorded in 1999 (by U S WEST). As with the other Baby Bells, we do not expect similar income accretion in the future, particularly if markets remain difficult. Indeed, the pension fund at Qwest actually recorded a negative return in 2000, as did other Baby Bells. Next year, the 2002 salary increase will also put additional pressure on earnings.

#### 4 - Incremental software capitalization

One of the important changes in accounting in recent years has been the requirement to capitalize software costs. This is very important to telecom companies, which spend hundreds of millions of dollars every year on software. In the first years, applying this policy has the effect of enhancing net income as items previously expensed are capitalized. Longer term, the positive effect on net income is neutralized, as higher depreciation expense is recorded.

Our review of Qwest's software capitalization practices indicated very significant amounts of software being capitalized. In 1999 cumulative *gross* capitalized software (just U S WEST) totaled approximately \$800 million, of which \$114 million was written off as part of the 2000 merger provisions. Our understanding is that old Qwest had net capitalized software of about \$170 million at 12/31/99. At 12/31/00 the combined new Qwest had *gross* capitalized software of \$1,634 million, suggesting that the company capitalized approximately \$780 million of software in 2000, and there could be another \$600 million capitalized this year. We believe much of this spending relates to OSS for S. 271 long distance entry.

#### Impact of software capitalization

During periods of high software capitalization, expenses are understated relative to the cash spending, with the reverse as the depreciation catches up. This is part of the reason for the rapid increase in depreciation expense we are seeing. We believe that most of the software capitalized is written

off over a five year period. The increase in EPS is equivalent to about \$0.30 per share after tax if looked at from a cash perspective, or \$0.06 per share each year if amortized over 5 years.

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## Other accounting considerations

### 5 - Incremental capitalization of interest

We have also seen a significant increase in the level of interest capitalized as a result of the step up in capital spending and higher interest rates. Capitalized interest jumped from \$27 million in 1999 for US WEST alone, to \$151 million in 2000. It should be noted that the 1999 figure is for US WEST alone (we believe that Qwest's undisclosed capitalized interest was in the \$50 million range), while the 2000 figure also includes six months of Qwest results. Higher capital spending and higher commercial paper rates were key drivers of the increase.

Reported interest expense for 2000 totaled \$1,041 million, so capitalization had the effect of reducing reported interest expense by some 13%. The increase in EPS is equivalent to about \$0.05 per share after tax if looked at from a cash perspective, or \$0.01 per share per year if amortized over 5 years.

### Impact of capitalization of interest

As with software capitalization, this capitalization is a requirement of US-GAAP, but economically it has the effect of reducing reported interest expense in the income statement, but increasing PP&E and therefore depreciation. This increases current earnings but hurts future earnings unless related revenue growth offsets the incremental cost.

### 6 - Restructuring charge

To date Qwest has recorded nearly \$2 billion of incremental restructuring charges partially related to the merger. The charge in 2000 was \$1.752 billion, with a further charge of \$209 million in first quarter 2001. We expect an additional charge (probably final) in the second quarter. These charges include the costs associated with staff reductions, but also include a variety of other charges and accruals.

| Exhibit 4<br>Restructuring Charges Through 3/31/2001 |                |
|--|----------------|
| Description  | Charge (\$mm)  |
| Contractual settlements and terminations             | \$710          |
| Merger bonuses and severance costs                   | 545            |
| Termination of software development projects         | 114            |
| Write-off of access lines                            | 236            |
| Post-retirement plan curtailment gain                | (106)          |
| Other merger-related costs and charges               | 462            |
| <b>Total</b>   | <b>\$1,961</b> |

Source: Qwest SEC filings

### Impact of restructuring charge

These charges are very common in M&A situations, particularly in the telecom sector. Investors should recognize that some of these provisions will create future cash outflows that are not reflected in the income statement of the period.

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Exhibit 8

## Qwest Income Statement

|   | 1998   | 1999   | 2000   | 2001E  | 2002E  | 2003E  | 2004E  | 2005E  | 2006E  | '01-'06 |
|---|--------|--------|--------|--------|--------|--------|--------|--------|--------|---------|
| Commercial (ex-switched, post 98)           | 6,466  | 7,371  | 9,444  | 11,800 | 14,213 | 16,736 | 19,540 | 22,715 | 26,292 | 17%     |
| % y/y growth                                |        | 14.0%  | 28.1%  | 25.0%  | 20.5%  | 17.8%  | 16.8%  | 16.3%  | 15.8%  |         |
| % sequential growth                         |        |        |        |        |        |        |        |        |        |         |
| % total y/y revenue growth                  |        | 31.7%  | 87.8%  | 89.3%  | 85.4%  | 83.9%  | 84.4%  | 86.7%  | 88.0%  |         |
| Consumer and small business                 | 5,827  | 6,065  | 6,202  | 6,283  | 6,424  | 6,569  | 6,733  | 6,901  | 7,074  | 2%      |
| % y/y growth                                |        | 4.1%   | 2.3%   | 1.3%   | 2.3%   | 2.3%   | 2.5%   | 2.5%   | 2.5%   |         |
| % total y/y revenue growth                  |        | 8.9%   | 5.8%   | 3.1%   | 5.6%   | 4.8%   | 4.9%   | 4.8%   | 4.2%   |         |
| Wireless                                    | 94     | 226    | 494    | 842    | 1,156  | 1,507  | 1,844  | 2,157  | 2,392  | 23%     |
| % y/y growth                                |        | 151.1% | 105.3% | 70.4%  | 37.2%  | 30.4%  | 22.4%  | 17.0%  | 10.9%  |         |
| % total y/y revenue growth                  |        | 5.0%   | 10.9%  | 13.2%  | 11.1%  | 11.7%  | 10.2%  | 8.5%   | 5.8%   |         |
| Total Consumer/Small Business               | 5,921  | 6,301  | 6,696  | 7,125  | 7,580  | 8,075  | 8,577  | 9,058  | 9,466  | 6%      |
| % y/y growth                                |        | 6.4%   | 6.3%   | 6.4%   | 6.4%   | 6.5%   | 6.2%   | 5.6%   | 4.5%   |         |
| % sequential growth                         |        |        |        |        |        |        |        |        |        |         |
| % total y/y revenue growth                  |        | 13.3%  | 16.7%  | 16.2%  | 15.1%  | 15.5%  | 15.1%  | 13.0%  | 10.0%  |         |
| Directory                                   | 1,349  | 1,436  | 1,530  | 1,589  | 1,645  | 1,728  | 1,792  | 1,854  | 1,919  | 4%      |
| % y/y growth                                |        | 6.4%   | 6.5%   | 4.5%   | 4.2%   | 3.8%   | 3.7%   | 3.5%   | 3.5%   |         |
| % total y/y revenue growth                  |        | 3.0%   | 4.0%   | 2.6%   | 2.3%   | 2.1%   | 1.9%   | 1.7%   | 1.6%   |         |
| Switched access                             | 1,486  | 1,284  | 1,069  | 959    | 885    | 830    | 839    | 824    | 838    | -5%     |
| % y/y growth                                |        | -13.6% | -16.8% | -10.3% | -7.6%  | -6.3%  | -1.8%  | -1.8%  | 1.8%   |         |
| % total y/y revenue growth                  |        | -5.0%  | -8.6%  | -8.2%  | -3.5%  | -2.5%  | -1.4%  | -0.4%  | 0.4%   |         |
| Total revenue                               | 13,736 | 16,594 | 18,954 | 21,591 | 24,418 | 27,425 | 30,746 | 34,451 | 38,516 | 12%     |
| % y/y growth                                |        | 20.8%  | 14.2%  | 13.9%  | 13.1%  | 12.3%  | 12.1%  | 12.0%  | 11.8%  |         |
| % sequential growth                         |        |        |        |        |        |        |        |        |        |         |
| Cost of sales                               | 4,442  | 5,906  | 8,757  | 8,131  | 9,303  | 10,531 | 11,899 | 13,436 | 15,060 | 13%     |
| % growth                                    |        | 33.0%  | 14.4%  | 20.3%  | 14.4%  | 13.2%  | 13.0%  | 12.9%  | 12.1%  |         |
| % revenue                                   |        | 32.3%  | 35.6%  | 37.7%  | 38.1%  | 38.4%  | 38.7%  | 39.0%  | 39.1%  |         |
| Gross margin                                | 9,294  | 10,688 | 12,197 | 13,461 | 15,114 | 16,894 | 18,848 | 21,015 | 23,456 | 12%     |
| % growth                                    |        | 15.0%  | 14.1%  | 10.4%  | 12.3%  | 11.8%  | 11.6%  | 11.5%  | 11.6%  |         |
| % revenue                                   |        | 67.7%  | 64.4%  | 62.3%  | 61.3%  | 61.6%  | 61.3%  | 61.0%  | 60.9%  |         |
| Selling, general, and administrative        | 3,866  | 4,406  | 4,829  | 4,913  | 5,580  | 6,240  | 7,011  | 7,873  | 8,821  | 12%     |
| % growth                                    |        | 14.0%  | 9.6%   | 1.7%   | 13.6%  | 11.8%  | 12.4%  | 12.3%  | 12.0%  |         |
| % revenue                                   |        | 26.1%  | 25.6%  | 22.6%  | 22.9%  | 22.8%  | 22.8%  | 22.9%  | 22.9%  |         |
| EBITDA                                      | 5,428  | 6,282  | 7,368  | 8,549  | 9,535  | 10,894 | 11,837 | 13,143 | 14,638 | 11%     |
| % growth                                    |        | 15.7%  | 17.3%  | 16.0%  | 11.3%  | 11.7%  | 11.1%  | 11.0%  | 11.4%  |         |
| % revenue                                   |        | 35.6%  | 37.9%  | 39.6%  | 39.0%  | 38.8%  | 38.5%  | 38.1%  | 38.0%  |         |
| Depreciation                                | 2,315  | 2,539  | 2,796  | 3,641  | 4,267  | 4,882  | 5,515  | 6,136  | 6,756  | 13%     |
| % growth                                    |        | 9.7%   | 10.1%  | 30.2%  | 17.2%  | 14.6%  | 12.7%  | 11.3%  | 10.1%  |         |
| Goodwill and intangibles amortization       | 1,268  | 1,268  | 1,270  | 1,276  | 1,276  | 1,276  | 1,276  | 1,276  | 1,276  | 0%      |
| Operating income                            | 1,845  | 2,475  | 3,302  | 3,632  | 3,951  | 4,486  | 5,048  | 5,730  | 6,603  | 13%     |
| % y/y growth                                |        | 34.1%  | 33.4%  | 10.0%  | 8.9%   | 12.4%  | 12.5%  | 13.6%  | 15.2%  |         |
| Interest expense                            | 830    | 887    | 1,116  | 1,473  | 1,702  | 1,812  | 1,848  | 1,813  | 1,694  | 3%      |
| Other expense (income) net                  |        | (3)    | 43     | 80     | 83     | 51     | 19     | (57)   | (174)  | -217%   |
| Earnings before income taxes                | 1,015  | 1,591  | 2,143  | 2,079  | 2,267  | 2,623  | 3,179  | 3,975  | 5,083  | 20%     |
| % growth                                    |        | 56.7%  | 34.7%  | -3.0%  | 8.1%   | 16.9%  | 17.2%  | 25.0%  | 27.9%  |         |
| Income tax expense (benefit)                | 866    | 943    | 1,148  | 1,107  | 1,167  | 1,214  | 1,622  | 1,820  | 2,250  |         |
| % tax rate                                  |        | 85.3%  | 59.3%  | 53.6%  | 52.5%  | 50.1%  | 47.9%  | 45.8%  | 44.0%  |         |
| Net earnings                                | 149    | 648    | 995    | 972    | 1,049  | 1,309  | 1,857  | 2,154  | 2,847  | 24%     |
| % y/y growth                                |        | 334.9% | 53.5%  | -2.3%  | 7.9%   | 24.8%  | 26.5%  | 30.0%  | 32.2%  |         |
| Diluted earnings per share                  | 0.09   | 0.39   | 0.59   | 0.58   | 0.61   | 0.75   | 0.92   | 1.17   | 1.81   | 21%     |
| % growth                                    |        | 333.3% | 51.5%  | -1.7%  | 5.2%   | 23.0%  | 22.7%  | 27.2%  | 29.1%  |         |
| Diluted cash earnings per share             | 0.90   | 1.08   | 1.25   | 1.24   | 1.27   | 1.39   | 1.55   | 1.78   | 2.11   | 11%     |
| % growth                                    |        | 20.0%  | 15.7%  | -0.8%  | 2.4%   | 9.4%   | 11.5%  | 14.6%  | 18.5%  |         |
| Diluted weighted average shares outstanding | 1,572  | 1,845  | 1,688  | 1,687  | 1,708  | 1,751  | 1,795  | 1,840  | 1,886  |         |
| % growth                                    |        | 4.6%   | 2.8%   | -0.1%  | 1.3%   | 2.5%   | 2.5%   | 2.5%   | 2.5%   |         |

Source: Morgan Stanley Research Estimates

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ADJUSTED 715 VIEW REVENUE  
Net Income of 101 EBITDAGlobal Crossing  
Summary P&L - Continuing Operations  
Consolidated \$5.88 Cash Revenue Scenario (4/5/01 Estimate Updated for Q1 Results)

| (M)                                      | Q1 01 | Q2 01 | Q3 01 | Q4 01 | Q1 01 | Q2 01 | Q3 01 | Q4 01 | Total  |
|--|-------|-------|-------|-------|-------|-------|-------|-------|--------|
| Product Sales                            | 499   | 498   | 502   | 543   | 891   | 891   | 891   | 891   | 2,413  |
| Local Voice - CLEC                       | 25    | 27    | 25    | 29    | 22    | 22    | 22    | 22    | 105    |
| Local Voice - Other                      | 65    | 67    | 67    | 71    | 269   | 269   | 269   | 269   | 1,075  |
| Data Capacity - Sales                    | 68    | 68    | 67    | 67    | 269   | 269   | 269   | 269   | 1,075  |
| Data Capacity - Leases                   | 145   | 128   | 145   | 147   | 565   | 565   | 565   | 565   | 2,235  |
| ATM/Frame Relay                          | 74    | 82    | 78    | 114   | 348   | 348   | 348   | 348   | 1,386  |
| Other Services                           | 0     | 0     | 0     | 0     | 0     | 0     | 0     | 0     | 0      |
| Wireline                                 | 0     | 0     | 0     | 0     | 0     | 0     | 0     | 0     | 0      |
| Total Telecomm Revenue                   | 848   | 867   | 890   | 1,170 | 3,775 | 3,775 | 3,775 | 3,775 | 14,925 |
| Global Media                             | 148   | 155   | 147   | 138   | 588   | 588   | 588   | 588   | 2,357  |
| Total Media Revenue                      | 148   | 155   | 147   | 138   | 588   | 588   | 588   | 588   | 2,357  |
| Total Revenue                            | 996   | 1,022 | 1,037 | 1,308 | 4,363 | 4,363 | 4,363 | 4,363 | 17,282 |
| Operating Expenses                       | 547   | 533   | 516   | 712   | 2,288 | 2,288 | 2,288 | 2,288 | 9,187  |
| Operating Income                         | 449   | 489   | 521   | 596   | 2,075 | 2,075 | 2,075 | 2,075 | 8,095  |
| Margin                                   | 449   | 489   | 521   | 596   | 2,075 | 2,075 | 2,075 | 2,075 | 8,095  |
| Total Recurring Other Operating Expenses | 515   | 508   | 517   | 719   | 2,259 | 2,259 | 2,259 | 2,259 | 9,095  |
| Net % of Total Revenue                   | 515   | 508   | 517   | 719   | 2,259 | 2,259 | 2,259 | 2,259 | 9,095  |
| Recurring Service EBITDA                 | 181   | 189   | 194   | 251   | 715   | 715   | 715   | 715   | 2,840  |
| IRIS                                     | 255   | 267   | 286   | 323   | 1,131 | 1,131 | 1,131 | 1,131 | 4,519  |
| Recurring Adjusted EBITDA                | 436   | 456   | 480   | 574   | 1,846 | 1,846 | 1,846 | 1,846 | 7,359  |
| Cash Revenue                             | 1,443 | 1,413 | 1,398 | 1,550 | 5,804 | 5,804 | 5,804 | 5,804 | 23,210 |
| Capital                                  |       |       |       |       |       |       |       |       | 5,104  |

\* Q1 2001 based on current estimated results

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2001 Guidance Forecast: \$5.88 Cash Revenue





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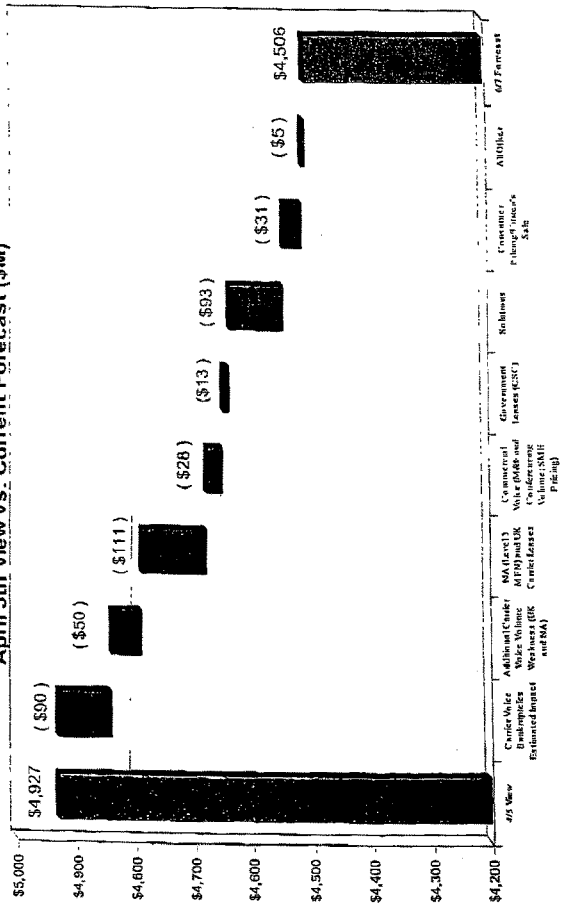
## Global Crossing<sup>TM</sup>

- Service Revenue Forecast Reduced \$421M Since April 5 View (Graph 1)
- This reduction Primarily Driven by:
  - Voice Bankruptcies and Collections Issues Reducing Carrier Volume - (\$90M)
  - Reduced Forecast for Global Solutions In Year Revenue - (\$91M)
  - Additional Volume Weakness in Carrier/BSP Recurring Data and Voice - (\$161)
    - Level 3 MFN Impact on Carrier Leases
  - Consumer Impact of ILEC Sale (Franchise LD moves to Wholesale Arrangement - (\$31)
  - Price and Volume Variances in Commercial Markets - (\$46)
- The Regional Forecasts with all Risks included shows an additional risks to Service Revenue of \$162M (Graph 2)
  - The additional risks have primarily been identified in the Carrier/BSP markets in NA
  - Additional Voice and Data Risks given the Volume ramps
  - These risks are still being evaluated
- Global Solutions additional risk of \$18M should be incorporated into the Forecast
- BT Syncordia/Other Risks are still being evaluated

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# Global Crossing™

Global Crossing Service Revenue Attribution -  
April 5th View vs. Current Forecast (\$M)



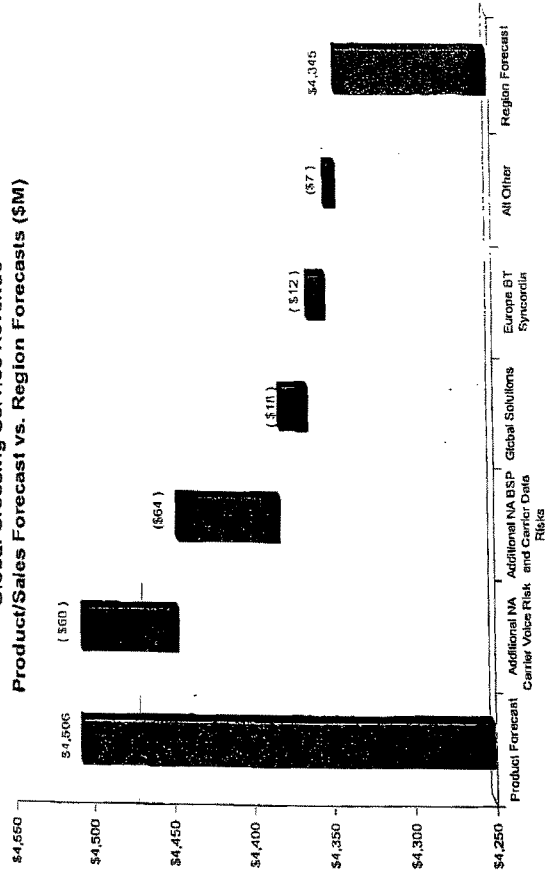
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# Global Crossing™

Global Crossing Service Revenue  
Product/Sales Forecast vs. Region Forecasts (\$M)



02-HEC-50288

Global Crossing<sup>TM</sup>

|                        | Total Company |                |                             |                  |                       |
|------------------------|---------------|----------------|-----------------------------|------------------|-----------------------|
|                        | 2000          | 2001<br>Budget | 2001<br>Budget<br>over 2000 | 2001<br>Forecast | Forecast<br>over 2000 |
| <b>Global Crossing</b> |               |                |                             |                  |                       |
| Total Voice Services   | 2,073         | 2,567          | 24%                         | 2,320            | 12%                   |
| Total Data Services    | 1,046         | 2,292          | 119%                        | 1,542            | 47%                   |
| Global Marine          | 460           | 626            | 36%                         | 626              | 36%                   |
| Total Service Revenue  | 3,580         | 5,485          | 53%                         | 4,489            | 25%                   |
| <b>North America</b>   |               |                |                             |                  |                       |
| Total Voice Services   | 1,888         | 2,278          | 21%                         | 2,094            | 11%                   |
| Total Data Services    | 710           | 1,513          | 113%                        | 952              | 34%                   |
| Total Service Revenue  | 2,598         | 3,792          | 46%                         | 3,046            | 17%                   |
| <b>Europe</b>          |               |                |                             |                  |                       |
| Total Voice Services   | 185           | 280            | 51%                         | 224              | 21%                   |
| Total Data Services    | 295           | 561            | 91%                         | 471              | 60%                   |
| Total Service Revenue  | 480           | 842            | 75%                         | 695              | 45%                   |
| <b>Latin America</b>   |               |                |                             |                  |                       |
| Total Voice Services   | 0             | 7              | N/A                         | 2                | N/A                   |
| Total Data Services    | 4             | 93             | 2155%                       | 25               | 511%                  |
| Total Service Revenue  | 4             | 99             | 2315%                       | 27               | 555%                  |
| <b>Asia</b>            |               |                |                             |                  |                       |
| Total Voice Services   | 0             | 1              | N/A                         | 1                | N/A                   |
| Total Data Services    | 37            | 124            | 234%                        | 94               | 152%                  |
| Total Service Revenue  | 37            | 126            | 237%                        | 95               | 155%                  |

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## Global Crossing™

|   | Total          |                      |                  | Carrier/BSP    |                      |                  | Commercial/Retail |                      |                  |
|---|----------------|----------------------|------------------|----------------|----------------------|------------------|-------------------|----------------------|------------------|
|   | 2001<br>Budget | 4/5 View<br>(\$6.7B) | June<br>Forecast | 2001<br>Budget | 4/5 View<br>(\$6.7B) | June<br>Forecast | 2001<br>Budget    | 4/5 View<br>(\$6.7B) | June<br>Forecast |
| LD Voice                                    | 2,462          | 2,404                | 2,216            | 1,436          | 1,412                | 1,272            | 886               | 863                  | 835              |
| Local Voice                                 | 104            | 104                  | 104              | 0              | 0                    | 0                | 104               | 104                  | 104              |
| Equipment                                   | 300            | 300                  | 300              | 0              | 0                    | 0                | 300               | 300                  | 300              |
| Data Capacity Sales                         | 2,383          | 1,933                | 1,922            | 2,380          | 1,933                | 1,922            | 3                 | 0                    | 0                |
| Data Capacity Leases                        | 1,033          | 800                  | 671              | 672            | 531                  | 414              | 361               | 269                  | 256              |
| ATM/FR/Mgt Svcs                             | 304            | 272                  | 258              | 10             | 2                    | 2                | 294               | 269                  | 257              |
| IP Services                                 | 172            | 186                  | 171              | 59             | 79                   | 85               | 113               | 107                  | 86               |
| Web Hosting                                 | 6              | 3                    | 7                | 0              | 0                    | 0                | 6                 | 3                    | 7                |
| Global Solutions/Outsourcing <sup>(1)</sup> | 372            | 125                  | 50               | 0              | 0                    | 0                | 372               | 125                  | 50               |
| <b>Total Telecom</b>                        | <b>7,137</b>   | <b>6,127</b>         | <b>5,699</b>     | <b>4,557</b>   | <b>3,958</b>         | <b>3,695</b>     | <b>2,440</b>      | <b>2,040</b>         | <b>1,896</b>     |
| Global Marine                               | 626            | 600                  | 626              | 0              | 0                    | 0                | 626               | 600                  | 626              |
| <b>Total Cash Revenue</b>                   | <b>7,763</b>   | <b>6,727</b>         | <b>6,325</b>     | <b>4,557</b>   | <b>3,958</b>         | <b>3,695</b>     | <b>3,067</b>      | <b>2,641</b>         | <b>2,522</b>     |
| IRU Cash Activity                           | 2,279          | 1,800                | 1,819            | 2,276          | 1,800                | 1,819            | 3                 | 0                    | 0                |
| <b>Total Service Revenue</b>                | <b>5,484</b>   | <b>4,927</b>         | <b>4,506</b>     | <b>2,281</b>   | <b>2,158</b>         | <b>1,876</b>     | <b>3,063</b>      | <b>2,641</b>         | <b>2,522</b>     |

(1) Global Solutions/Outsourcing includes \$330M Global and \$42M identified in Europe

GX-HFC-56268

08/30/2002 15:58 FAX

Debevoise &amp; Plimpton

009/010

## Global Crossing™

|                         | Carried/ISP | NOC | Financial | Media | Gov't | 2001 Budget |              |          | Commercial<br>Subtotal | Consumer | Total |
|-------------------------|-------------|-----|-----------|-------|-------|-------------|--------------|----------|------------------------|----------|-------|
|                         |             |     |           |       |       | Gov't       | Confidential | Subtotal |                        |          |       |
| <b>Total:</b>           | 1,436       | 201 | 18        | 17    | 69    | 192         | 0            | 493      | 991                    | 149      | 2,567 |
| Voice                   | 844         | 198 | 566       | 36    | 109   | 0           | 3,300        | 298      | 1,448                  | 0        | 2,292 |
| Recurring Data          | 2,280       | 399 | 584       | 53    | 179   | 192         | 3,300        | 702      | 2,438                  | 140      | 4,858 |
| Telecom Service Revenue | 2,276       | 0   | 0         | 0     | 0     | 0           | 0            | 3        | 3                      | 0        | 2,279 |
| BLU/Cash Acct           | 4,556       | 399 | 584       | 53    | 179   | 192         | 3,300        | 705      | 2,441                  | 149      | 7,137 |
| Telecom Cash Revenue    | 0           | 0   | 0         | 0     | 0     | 0           | 0            | 626      | 626                    | 0        | 626   |
| Global Marine           | 4,556       | 399 | 584       | 53    | 179   | 192         | 3,300        | 1,431    | 3,067                  | 149      | 7,763 |
| Total Cash Revenue      |             |     |           |       |       |             |              |          |                        |          |       |

|                         | Carried/ISP | NOC | Financial | Media | Gov't | 2001 Forecast |              |          | Commercial<br>Subtotal | Consumer | Total |
|-------------------------|-------------|-----|-----------|-------|-------|---------------|--------------|----------|------------------------|----------|-------|
|                         |             |     |           |       |       | Gov't         | Confidential | Subtotal |                        |          |       |
| <b>Total:</b>           | 1,272       | 172 | 13        | 4     | 65    | 181           | 0            | 504      | 940                    | 109      | 2,120 |
| Voice                   | 604         | 112 | 461       | 9     | 64    | 0             | 50           | 263      | 936                    | 0        | 1,560 |
| Recurring Data          | 1,876       | 784 | 475       | 13    | 127   | 181           | 50           | 767      | 1,896                  | 109      | 3,861 |
| Telecom Service Revenue | 1,819       | 0   | 0         | 0     | 0     | 0             | 0            | 0        | 0                      | 0        | 1,819 |
| BLU/Cash Acct           | 3,694       | 784 | 475       | 13    | 127   | 181           | 50           | 767      | 1,896                  | 109      | 5,099 |
| Telecom Cash Revenue    | 0           | 0   | 0         | 0     | 0     | 0             | 0            | 626      | 626                    | 0        | 626   |
| Global Marine           | 3,694       | 784 | 475       | 13    | 127   | 181           | 50           | 1,393    | 2,522                  | 109      | 6,336 |
| Total Cash Revenue      |             |     |           |       |       |               |              |          |                        |          |       |

|                         | Carried/ISP | NOC   | Financial | Media | Gov't | 2001 Forecast Variance |              |          | Commercial<br>Subtotal | Consumer | Total   |
|-------------------------|-------------|-------|-----------|-------|-------|------------------------|--------------|----------|------------------------|----------|---------|
|                         |             |       |           |       |       | Gov't                  | Confidential | Subtotal |                        |          |         |
| <b>Total:</b>           | (165)       | (29)  | (4)       | (13)  | (4)   | (11)                   | 0            | 11       | (51)                   | (31)     | (246)   |
| Voice                   | (240)       | (86)  | (105)     | (27)  | (48)  | 0                      | (280)        | 55       | (491)                  | 0        | (711)   |
| Recurring Data          | (404)       | (115) | (109)     | (40)  | (52)  | (11)                   | (280)        | 65       | (54)                   | 0        | (972)   |
| Telecom Service Revenue | (457)       | 0     | 0         | 0     | 0     | 0                      | 0            | (3)      | 0                      | 0        | (460)   |
| BLU/Cash Acct           | (862)       | (115) | (109)     | (40)  | (52)  | (11)                   | (280)        | 62       | (1)                    | (31)     | (1,437) |
| Telecom Cash Revenue    | 0           | 0     | 0         | 0     | 0     | 0                      | 0            | (9)      | 0                      | 0        | (9)     |
| Global Marine           | (862)       | (115) | (109)     | (40)  | (52)  | (11)                   | (280)        | 62       | (1)                    | (31)     | (1,436) |
| Total Cash Revenue      |             |       |           |       |       |                        |              |          |                        |          |         |

GX-HEC-56269

08/30/2002 15:58 FAX

Debevoise &amp; Plimpton

010/010

## Global Crossing

### Risks:

|   |             |
|---|-------------|
| Additional Pricing Erosion and Customer Bankruptcies                    | \$30M       |
| BSP Data Volume   | \$25M       |
| Exodus Resale Agreement Execution                                       | \$12M       |
| New Product (IP VPN/MPLS, Voice Features) and Technology Implementation | \$18M       |
| Voice Billing Solutions Outside of NA                                   | \$12M       |
| Total Risk Range  | \$90-\$100M |

### Opportunities:

|  |            |
|--|------------|
| IP VPN/MPLS, Voice VPN and MNS Funnel Opportunities              | \$10M      |
| Additional Global Solutions Deal w/ In Year Revenue (Q4 Revenue) | \$20M      |
| Global Mobile Voice and Additional Asian Voice Revenues          | \$ 6M      |
| Carrier Voice Direct Connects                                    | \$40M      |
| Increased Wavelength Leases Opportunities (Level 3)              | \$15M      |
| Total Opportunities Range  | \$90-\$95M |

GX-HEC-56270

**CONFIDENTIAL**

**From:** O'Neill, Charles  
**To:** Arnold, Richard; Vries, Gerben de; Oudejans, Rene; Meulen, Koos van der; Muir, Donald; McShane, John; Secilla, Juan Pedro; Calis, Peter  
**CC:** Yaremko, Robert; Wood, John; Tweed, Shaun; Mittertreiner, Frank; Pearson, Alistair  
**BCC:**  
**Subject:** Authorisation will be required for the purchase element of Telefonica swap- same as was followed for KPNQwest{F}  
**Date:** 11/9/2000 10:00:18 AM  
**Attachments:**

---

Richard,

Do we consider the capex for repeater sites that will be displaced by collocation with Telefonica as a part of the deal? Also, as part of the Business Case we identified opex associated with maintaining both the duct system, and the fibers. These costs are also covered by the agreement. How do we treat these elements? Finally, a portion of the fiber link is within the cities of Bilbao and Barcelona. Typically, the costs of city builds are much higher than the backbone routes. The capex (\$10/meter) for installed duct and fiber are backbone assumptions. I estimate that Telefonica will need to construct at least 20 Km of city fiber in total, in order to reach our POPs. What cost assumption is appropriate for these sections?

Finally (I promise), please help me understand how we evaluate the costs of acquisition when payment in kind is the currency? I have been told that the margins on the capacity products being swapped in this case are in the order of 50-75%. Should not the costs of acquiring the fiber be equal to the transfer costs (balance sheet) for the capacity being traded? Any insight is appreciated.

Charlie

-----Original Message-----

**From:** Arnold, Richard  
**Sent:** Thursday, November 09, 2000 3:35 PM  
**To:** Vries, Gerben de; Oudejans, Rene; Meulen, Koos van der; Muir, Donald; McShane, John; Secilla, Juan Pedro; Calis, Peter; O'Neill, Charles  
**Cc:** Yaremko, Robert; Wood, John; Tweed, Shaun; Mittertreiner, Frank; Pearson, Alistair  
**Subject:** Authorisation will be required for the purchase element of Telefonica swap- same as was followed for KPNQwest

Depending on the value of the deal agreed, based on Gerben's analysis we will need to apply for authorisation to exceed planned capex. A similar procedure was followed for KPNQwest, per Gerben's analysis the business case is \$15.85m.

Regards

Richard

-----Original Message-----

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1007

From: Vries, Gerben de  
Sent: 09 November 2000 14:24  
To: Arnold, Richard; Oudejans, Rene; Meulen, Koos van der; Muir, Donald; McShane, John; Secilla, Juan Pedro  
Cc: Yaremko, Robert; Wood, John; Tweed, Shaun; Mittertreiner, Frank; Pearson, Alistair  
Subject: RE: Telefonica deal Response Required by end of Friday

Richard

Barcelona-Perthusle (French border) approx. 165 km. Duct deployment capex \$ 7.8 mio, cable \$ 1.65 mio, total \$ 9.45 mio.  
Bilbao-Hendaye (French border) approx. 120 km. Duct deployment capex \$ 5.2 mio, cable \$ 1.2 mio, total \$ 6.4 mio.

Regards  
Gerben

-----Original Message-----

From: Arnold, Richard  
Sent: Thursday, November 09, 2000 1:32 PM  
To: Oudejans, Rene; Meulen, Koos van der; Muir, Donald; McShane, John; Secilla, Juan Pedro  
Cc: Yaremko, Robert; Vries, Gerben de; Wood, John; Tweed, Shaun; Mittertreiner, Frank; Pearson, Alistair  
Subject: Telefonica deal Response Required by end of Friday

Rob,

Please find advised the latest update, can you assist me with evaluating the latest pricing relative to the market, will call later to discuss to make sure that it is supportable.

Gerben,

Please can you forward your calculation of the budgeted business case costs relative to the specific sections we are considering, to assess how far we can go in terms of price before we break our approval.

Alistair/Frank

Please can you update/submit your anticipated issues in respect of taxation for this deal, particularly characterisation and statutory entity

John(Wood)

Please can you review to make sure that you are happy from a spanish accounting perspective

Shaun

Could you let me know whether there are any OAM issues you foresee with this deal

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Thanks, lets all facilitate moving this forward as soon as possible as we desperately need this deal this quarter, I would appreciate answers wherever possible by the end of Friday

Regards

Richard

-----Original Message-----

From: Secilla, Juan Pedro

Sent: 09 November 2000 08:14

To: Bosch, Frits; Calis, Peter; Ruiter, Peter de; O'Neill, Charles; Nieveld, Gert; Arnold, Richard; Lopez Bravo, Javier

Subject: Telefonica meeting

Let me summarise the key conclusions obtained after the very positive meeting held with Telefonica (Fernando Lombart, Director of International Traffic, and his team) yesterday.

- In principle, we agreed to proceed with the agreement in the terms outlined in previous meetings (24 fp in Spain for capacity in PEC/AC-1).

- Telefonica agreed to studying a potential equal increase of the size of the deal on both sides (I got a call from Fernando Lombart yesterday evening and he told me they are studying to make the size 40 M\$ approx).

- Telefonica agreed to increase the unit price of the STM-4 IRU (20 year, including O&M) closer to the levels we proposed to them yesterday: 1.54 M\$ between A cities, 2.15 M\$ between Spanish cities and A cities, 3.71 M\$ in AC-1. Fernando told me this is still a little above market prices and probably they will ask for a reduction of 20% on these prices.

- We agreed to have a single contract for the transaction and that each party should bill each other. However, Telefonica must check with their finance people whether they can accommodate our request to have cash actually change hands. Their problem seems to be more an impact on budget than their inability to do it.

- Telefonica asked GC to keep the agreement fully confidential. We agreed not to disclose the strategic agreement but still asked them to be able to reference Telefonica as one of our key customers in Europe.

- Regarding our purchase of waves from them in Spain as a condition to proceed, Telefonica relaxed their requirement and we agreed that the formula should be that if GC eventually decides to buy waves in Spain, Telefonica will have the condition of preferred supplier for this purchase. But no firm commitment at all from our side.

They will study all these open issues and will send us a final proposal tomorrow Friday.

IMPORTANT: given the importance of sending cash for revenue recognition purposes, if Telefonica's position tomorrow is that they cannot do it, I think we should stress the importance of

1009

this for us and make it a condition to proceed. In order to be positive, we can suggest them to have a meeting with our finance/tax people to find out a suitable formula that satisfies both parties. Remember that their problem would not be that they may not do it, but rather an internal budget constraint that they should be able to circumvent if at the same time we send them cash for the same amount of money.

Thanks to all.

Juan Pedro Secilla  
Sales Director Wholesale

Global Crossing Spain  
Paseo de la Castellana, 36-39, planta 9  
28046 Madrid, Spain  
Phone: +34.91.7872200  
Fax: +34.91.7872222  
Mobile: +34.667782401

4/0002010: 1st Q \$550M target - emergency conf call

## CONFIDENTIAL

**From:** BRIAN FITZPATRICK

**To:** Patrick Joggerst; John Mercogliano; Robin Wright; Tony Sgroi; Omar A. Altaji; Ted Higase; Frits Bosch; Charles Barker; Robert Yaremko; Lisa Dadouris; Tony Palma

**CC:**

**BCC:**

**Subject:** 1st Q \$550M target - emergency conf call

**Date:** 2/5/2001 12:14:24 PM

**Attachments:**

To all:

I have scheduled a conference call for this Thursday, Feb. 8th, 9-10AM (NYC).

The agenda for the call is to openly discuss the Top 3 (largest) potential 1stQ carrier IRU deals, by region. The only way we are going to pull out this quarter is to "intensely focus" on closing 2-3 "extremely large" IRU deal "that are not currently being discussed". We will not make the quarter by focusing on the current deal list being discussed on our Monday calls. In addition, we need 2-3 home runs - period!!! We all need to do some serious thinking before this call. We need to pull some pretty big rabbits out of our hat within the next few weeks and all of you will need to play a role in making it happen. Pulling in some huge deals, or restructuring currently working deals - we need to consider everything. The only answer is think BIG. Once we identify our attack strategy we can list out owners per targeted deal and align our internal resources to make the deals happen. Think big = No Limits!

Conference bridge is as follows:

access # (Domestic US) 888-447-1225  
access # (Outside US) 303-248-1820  
PIN # 657-539

I look forward to discussing our top 3 targets by region Thursday (2/8) at 9AM.

Brian  
02/05/01

**CONFIDENTIAL**

From: Wright, Robin  
 To: Joggerst, Patrick  
 CC:  
 BCC:  
 Subject: Help -- attitude adjustment (?) {F}  
 Date: 3/8/2001 10:07:54 AM

**Attachments:**

you so totally rock

-----Original Message-----

From: Joggerst, Patrick  
 Sent: Thursday, March 08, 2001 1:04 PM  
 To: CAREY, DAVID  
 Subject: Help -- attitude adjustment (?)

Dave,

I need your help -- Qwest is now in the MOST DO category to make this quarter's numbers. I don't know Amy, but there seems to be an edge to her email that we really cannot tolerate.

Maybe I am wrong, but if you described to her the kind of melt-down that 360 is experiencing right now, she will better understand that we must meet our quarterly numbers.

There are a few people that work 24 hours a day to get the numbers in -- is Amy among them? If not, lets get her with the program.

Thanks,  
 Patrick

-----Original Message-----

From: AMY BRAUCH [mailto:amy\_brauch@globalcrossing.com]  
 Sent: Thursday, March 08, 2001 12:08 PM  
 To: Wright Robin  
 Cc: Antonucci Mike; CAREY DAVID; Dole Jim; Thieme Doug; Schroeder  
 Thomas; Croan Quinn; SEIFFER ERIKA  
 Subject: Re: [Fwd: CLEC customer prems lit022801master.xls]

All,

We can meet your deadline if we drop all other projects we are working on. This will come with a price in that we will not be able to work on implementing other savings projects.

In the future, it would be helpful for us to have more advance notice so that we can plan our time to accomodate you.

Please feel free to discuss further if need be.

Thanks,  
Amy

"Wright, Robin" wrote:

> Amy,  
> I don't want to be a pain, but we are pushing to close this deal this  
> quarter. That means that we need to have our buy side nailed down no later  
> than the middle of next week. Is there a way that we can short cut this?  
> This is one of our highest priorities for the quarter and we have to be in  
> contract discussions by the end of next week.  
>  
> Thanks, Robin  
>  
> -----Original Message-----  
> From: AMY BRAUCH [mailto:amy\_brauch@globalcrossing.com]  
> Sent: Thursday, March 08, 2001 9:03 AM  
> To: Antonucci Mike  
> Cc: CAREY DAVID; Dole Jim; Wright Robin; Thieme Doug; Schroeder Thomas;  
> Croan Quinn; ERIKA SEIFFER  
> Subject: Re: [Fwd: CLEC customer prems lit022801master.xls]  
>  
> We are expecting a timeframe for completion of the below initiatives to take  
> one week for the  
> address comparison, and then another week for the expense information. We  
> will provide information  
> as we receive with all information being provided by 3/21. Please let me  
> know if this does not  
> meet your requirements.  
>  
> Thanks,  
> Amy  
>  
> "Antonucci, Mike" wrote:  
>  
>> Folks,  
>> Attached are two spread sheets. The sheet named Qwest shows the Qwest  
>> building list with columns indicating building type, whether or not it is  
>> on  
>> the Level 3 building list, GBLX lit, GBLX planned without a solution, GBLX  
>> planned with a solution. Cities not populated indicate no data or no  
>> plans.  
>> The second sheet shows present OC capacity ordered from other  
>> carriers  
>> and where we ordered it.

>>  
 >>  
 >>  
 >> Mike Antonucci Sr. Manager  
 >> Network Planning-Metro Build  
 >> 973 410 8720  
 >>  
 >> -----Original Message-----  
 >> From: DAVID CAREY [mailto:david\_carey@globalcrossing.com]  
 >> Sent: Wednesday, March 07, 2001 12:30 PM  
 >> To: Mike Antonucci; Jim Dole; Amy Brauch  
 >> Cc: Robin Wright; Doug Thieme  
 >> Subject: [Fwd: CLEC customer prems list022801master.xls]  
 >>  
 >> Mike, Amy & Jim,  
 >>  
 >> Attached please find a building list from the Qwest Non Regulated Access  
 >> Group that was promised to us as part of the due diligence request  
 >> associated with putting this deal together.  
 >>  
 >> Here is what we need to do:  
 >>  
 >> 1. Cross Reference these addresses against our Metro Build Target  
 >> Building List. This should identify LSO's, Carrier Hotels and Commercial  
 >> Properties. Mike, lets take the same approach to this as we used from  
 >> the Telseon cross reference effort.  
 >>  
 >> 2. Jim & Amy - Can we look at this list from an "Access Requirement"  
 >> perspective. The task can be defined as "identify those addresses that  
 >> we currently purchase access to today and the volume of business that we  
 >> have to this address".  
 >>  
 >> 3. I think we should plan to append their spreadsheet with this data  
 >> which will allow us to support a meaningful conversation on the topic.  
 >>  
 >> 4. Once we have identified the buildings of mutual interest then the  
 >> next task will be to test the competitiveness of their pricing. They  
 >> have provided me with another file that identifies the service offerings  
 >> that they have on their metro access facilities. Since their pricing  
 >> will be building and service specific; for purposes of trying to size  
 >> this up I think we should pick a "reference point" service offering and  
 >> set of locations as a sample. We should pick the reference point based  
 >> on something like and OC48 configured to our standard carrier hotel  
 >> configuration (so that we can firmly establish a cost basis) and a  
 >> sample set of locations. This will give us a start point to determine  
 >> the competitiveness of the offer. I'm still thinking through how to get  
 >> a feel for the absolute volume of the purchase and i think this is  
 >> largely dependant on the flexibility in the terms they give us. let's  
 >> put this on hold for now and revisit as we get a little deeper into  
 >> this.  
 >>

360009309: Help -- attitude adjustment (?) {F}

• •

>> 6. Please give me a response on how quickly you can turn around the  
>> request in items 1 & 2.

>>

>> thanks for the cooperation !

>>

>> dave

>>

>> -----

>> Name: Qwest building list.xls

>> Qwest building list.xls Type: Microsoft Excel Worksheet

> (application/vnd.ms-excel)

>> Encoding: base64

>> Download Status: Not downloaded with message



360009368: Capex

**CONFIDENTIAL**

**From:** Wright, Robin  
**To:** Joggerst, Patrick  
**CC:**  
**BCC:**  
**Subject:** Capex  
**Date:** 3/9/2001 11:28:41 AM

---

**Attachments:**

---

Patrick,  
Had a Qwest call this afternoon, on it were Jim Dole and Dave Carey. I'm afraid we are not going to get a great deal of enthusiastic support from the network folks without a directive from David. I think he needs to send a message to Wally or perhaps have a joint message from Wally and David that goes like this:  
"We are now 3 weeks away from the end of the quarter and it is clear that expediting some capital expenditures is going to be key to meeting the Street's expectations. We are fully aware that we are asking you to do something completely opposite from the direction you are headed, in terms of keeping capex within the budget and being extremely careful about spending. Wally and I, along with the executive committee, will make decisions about the trade off of revenue versus capex. In the meantime, it is our belief that the best approach is to assume we will be making the expenditures as outlined by the sales team. We commit to letting you know as quickly as possible the final decisions to minimize unnecessary work. We appreciate your support of our efforts."

Robin Wright  
Senior VP, Global Sales and Support  
Global Crossing  
88 Pine Street 30th Floor  
NY, NY 10005  
Office: 212-658-8168  
Fax: 212-658-8093  
Mobile: 917-270-5364  
rwright@globalcrossing.com

From: Smiley, Kimberly  
 Sent: Tuesday, October 23, 2001 2:32 PM  
 To: Casey, Greg; Dalton, Joe (VP)  
 Subject: FW: language  
 Importance: High



OW Qwest Side  
 Letter1234.doc

FYI

-----Original Message-----  
 From: Dalton, Joe  
 Sent: Friday, December 29, 2000 7:54 AM  
 To: Stout, Kimberly  
 Cc: Hoaglund, Roger  
 Subject: FW: language  
 Importance: High

Kim,

Disregard my other mail message. The e-mail language is as follows.

Roger,

Please approve the e-mail and the attached so we are ready to go.

Thanks,

Joe

-----Original Message-----  
 From: Coe, Alan [mailto:Alan.Coe@cwusa.com]  
 Sent: Friday, December 29, 2000 8:32 AM  
 To: 'Dalton, Joe'  
 Subject: RE: language

We are not adding the language that Greg proposed. The final version of the e-mail text is as follows. You just need to fill in Afshin's telephone number - I will let you know if we decide not to have the e-mail come from Afshin:

E-MAIL TEXT

"Qwest understands your concerns regarding the language in the side letter 'as agreed upon by the parties'. This email is intended to assure you that, in accordance with Qwest's past practice, Qwest will honor the understanding and intention of the parties with regard to any request by Cable & Wireless to obtain a full and fair trade of the capacity in Exhibit A of the IRU

Agreement for OC-192 wavelength capacity.

Qwest guarantees that should Cable & Wireless request such a trade prior to 31 December 2001, then Qwest shall provide such capacity, which shall be upon the following pricing:

1st wavelength route \$0.050 per DSO route mile  
 2nd wavelength route \$0.019 per DSO route mile  
 3rd wavelength route \$0.019 per DSO route mile  
 4th wavelength route \$0.018 per DSO route mile  
 5th wavelength route \$0.019 per DSO route mile.

Please contact me on ..... if you have any further concerns.

regards".

Jill will be contacting Kim about the SOLAS SLA - there is a further change to reflect the correct situation regarding the SLAs on the system.

Will call soon once I have spoken to Nick to advise next steps.

Regards

Alan

-----Original Message-----  
 From: Dalton, Joe [mailto:joe.dalton@qwest.com]  
 Sent: Friday, December 28, 2000 9:04 AM  
 To: 'Coe, Alan C&WUSA'  
 Subject: FW: language  
 Importance: High

Alan,

Are we ready to go. I assumed we were done and have the language being added and finalized on our end. I'm ready to exchange signatures as soon as I get your go ahead. Kim will follow up with Jill on the "outage clarification" on SONUS but I expect that will be done first thing. I'm in the office.

Thanks,

Joe

> -----Original Message-----  
 > From: Casey, Greg  
 > Sent: Thursday, December 28, 2000 9:36 PM  
 > To: 'alan.coe@cwusa.com'  
 > Cc: Dalton, Joe; Stout, Kimberly; Hoaglund, Roger  
 > Subject: language  
 > Importance: High  
 >  
 > alan We propose to add the following language to the email in lieu of the

> proposed blended pricing; "Qwest agrees to negotiate with Cable and  
> Wireless spot market and/or blended rates for the aforementioned  
> capacities within 90 days of the date of this email."  
>  
> Please indicate whether this is acceptable to Cable and Wireless so that  
> we may incorporate this language in to the final email.  
>  
> Sincerely,  
>  
>  
> Greg



Alan Coe  
SVP, Partner Services  
Cable & Wireless  
8219 Leesburg Pike  
8<sup>th</sup> Floor  
Vienna, VA 22182

Dear Alan,

This letter confirms that, pursuant to Section 5.4 of the IRU Agreement between Qwest Communications Corporation ("Qwest") and Cable & Wireless, USA, ("C&W") dated March 31, 2000 (the "Agreement"), and as specifically amended on December 27, 2000 (the "Third Amendment"), any or all of the capacity accepted by Cable & Wireless, USA (as recorded in Exhibit A of the Third Amendment) (the "Original Capacity") may at Cable & Wireless USA's election, be exchanged for other capacity, as agreed upon by the parties.

C&W may exchange some or all of the Original Capacity for OC-192 wavelength capacity on the routes indicated in Exhibit A of the Third Amendment or other routes that Qwest Communications Corporation may have available and to which Cable & Wireless, USA agree, before December 31, 2001 (the "Exchanged Capacity").

Any such exchange shall be documented by a written amendment to the Agreement. As provided in Section 5.4 of the Agreement, any such exchange shall be subject to the same terms and conditions of the Agreement, and the Exchanged Capacity shall be of greater or equal value to the Original Capacity being exchanged. In the event of such exchange, the Exchanged Capacity shall be priced as follows; provided however, this pricing shall be limited to a maximum of five (5) OC-192 wavelengths between the same city pair:

|                                  |                            |
|----------------------------------|----------------------------|
| 1 <sup>st</sup> wavelength route | \$0.050 per DSO route mile |
| 2 <sup>nd</sup> wavelength route | \$0.019 per DSO route mile |
| 3 <sup>rd</sup> wavelength route | \$0.019 per DSO route mile |
| 4 <sup>th</sup> wavelength route | \$0.019 per DSO route mile |
| 5 <sup>th</sup> wavelength route | \$0.019 per DSO route mile |

C&W and Qwest will also negotiate for pricing regarding fiber, where available, metro connectivity on an IRU basis, lower capacity levels (managed, unmanaged or wavelengths), non-domestic network, and leased capacity on both wavelength and managed capacity on Qwest's networks on a good faith basis.

#### Pricing Principles

All Exchanged Capacity offered to C&W under any of the above options shall be offered at a rate equal to the lower of the above rates or the fair market rate at the time of the exchange. In the absence of an independent market benchmark, a fair market rate is defined as the best rate offered by Qwest to any other company for the same volume of capacity and the same terms and conditions.

Termination points

Long distance capacity will be terminated at any carrier hotel reasonably identified by C&W in the terminal metro areas. These will include, but not be limited to, C&W POPs and public or private Pooling Points.

Thank you for your continued business, and we look forward to working with you on this transaction.

Best Regards,

Gregory M. Casey  
EVP- Wholesale Markets  
Qwest Communications

From: Stout, Kimberly  
Sent: Friday, December 29, 2000 3:38 PM  
To: Casey, Greg  
Subject: RE: C&W Qwest Agreement  
Greg,

I just tried to call Pam to see if she got this, and she's out of the office until Jan. 3. I sent it to Afshin and Pam, so Afshin will have it also.

-----Original Message-----

From: Casey, Greg  
Sent: Friday, December 29, 2000 3:37 PM  
To: Stout, Kimberly; Mohebbi, Afshin/Dieterle, Pam-Denver  
Cc: Dalton, Joe  
Subject: RE: C&W Qwest Agreement

afshin also copy [alan.coe@cwusa.com](mailto:alan.coe@cwusa.com) and then call me at 713 812 0437

-----Original Message-----

From: Stout, Kimberly  
Sent: Friday, December 29, 2000 2:46 PM  
To: Mohebbi, Afshin/Dieterle, Pam-Denver  
Cc: Casey, Greg; Dalton, Joe  
Subject: C&W Qwest Agreement  
Importance: High

Pam,

Greg Casey asked me to forward to you the following information to relay to Afshin as part of the C&W deal we are closing today.

Set forth below my signature block is the text of the email that Afshin is supposed to send to Nick Jeffery at C&W. Please cut and paste it into an email that Afshin will send to Nick Jeffery at [nick.jeffery@cwcom.co.uk](mailto:nick.jeffery@cwcom.co.uk)

Please copy Greg Casey on the email as well. Thanks in advance for your assistance. Please contact Greg Casey directly should you have any questions.

Best regards,

Kimberly A. Stout  
Director of Strategic Negotiations  
Qwest Communications Corporation  
555 17th Street, 22nd Floor  
Denver, Colorado 80202  
Phone: (303) 992-4032  
Fax: (303) 992-1776

Only the named recipient(s) should read this e-mail. It may contain confidential information. If you are not a named recipient or you received this e-mail by mistake, please notify me immediately by reply e-mail and delete the message.

Email text to be sent to Nick Jeffery:

Dear Nick,

Qwest understands your concerns regarding the language in the side letter 'as agreed upon by the parties'. This email is intended to assure you that, in accordance with Qwest's past practice, Qwest will honor the understanding and intention of the parties with regard to any request by Cable & Wireless to obtain a full and fair trade of the capacity in Exhibit A of the IRU Agreement for OC-192 wavelength capacity.

Qwest guarantees that should Cable & Wireless request such a trade prior to 31 December 2001, then Qwest shall provide such capacity, which shall be upon the following pricing:

1st wavelength route \$0.050 per DSO route mile  
2nd wavelength route \$0.019 per DSO route mile  
3rd wavelength route \$0.019 per DSO route mile  
4th wavelength route \$0.019 per DSO route mile  
5th wavelength route \$0.019 per DSO route mile.

Please contact me at (303)992-6000 if you have any further concerns.

Best regards,

QEC 203:



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**From:** Mohebbi, Afshin  
**Sent:** Thursday, January 04, 2001 5:22 PM  
**To:** Lukas, Frank; McMaster, Jack; Lau, Ross; Casey, Greg; Heil, William (Bill); 'Louwes, Jan'  
**Cc:** Gilmore, Shaun; 'rhett.williams@kpnqwest.com'; Dalton, Joe  
**Subject:** RE: Discussions regarding business opportunities with Flag Telecom

Frank:

We need to reduce our cash outlay on the asia deal and leverage our strength here to get Flag and their friends to buy things from us. I appreciate Flag's position or wishes, but we have the upper hand here. Flag needs cash to finish their projects. Few people have cash these days. They also need connectivity; their investors need connectivity.

They either buy from us now or commit to buy from us with in x-months certain capacity in US AND Europe. They can also do this as you said by putting together a buying group. either way, we need them and their friends to commit to buy certain amount of capacity from us. This is how the new world works. if the situation was reversed they would have exactly done the same.

Afshin

-----Original Message-----

**From:** Lukas, Frank  
**Sent:** Thursday, January 04, 2001 12:44 PM  
**To:** Mohebbi, Afshin; McMaster, Jack; Lau, Ross; Casey, Greg; Heil, William (Bill); 'Louwes, Jan'  
**Cc:** Gilmore, Shaun; 'rhett.williams@kpnqwest.com'; Dalton, Joe  
**Subject:** RE: Discussions regarding business opportunities with Flag Telecom

We had a conference call this morning and concluded the following:

1. The opportunity for a substantial "swap" deal does not exist with Flag for the North Asia Ring deal because: (i) the US network that Flag is looking to build is much smaller and later than we originally thought, and (ii) the Europe deal is "softer" than we originally thought (i.e. they are willing to do opportunistic swapping in Europe for FA-1 or Flag Europe-Asia capacity, but they are not able to do swaps that involve Flag North Asia. This is because Flag North Asia Loop is still in the planning and build stage - they need to keep those deals on a cash basis because they need to pay their suppliers to get the cable built).
2. In spite of the above, we should get a commitment from them (LOI or similar) that they will buy US network and Europe network from Qwest and KPNQwest respectively, assuming the usual conditions of being competitive in the market, etc.
3. Ross and Jack will call Ed McCormack, Flag COO, Monday am to see what we can get from them in the way of a commitment (for US or Europe purchases).
4. Based on that input from Flag, Ross will be able to take it to Joe and get direction

on whether we will go ahead with the North Asia deal with them or not.

5. The payment schedule to Flag is milestone based and, as currently negotiated, would likely result in \$96 M of payments in 2001, and \$79 M in 2002.

6. We are checking with C&W and with Teleglobe if they would be interested in a major capacity purchase on the North Asia Ring system. If we could get either or both of them to participate, especially in a cash deal (perhaps over two years) that would effectively reduce our cash outlay. Bill Heil is working with Joe Dalton and Greg Casey on making those contacts.

7. Jan, Bill, and I are keeping the dialogue going to make sure we are joined at the hip on these other global customers as well.

Frank.

-----Original Message-----

From: Mohebbi, Afshin  
Sent: Thursday, January 04, 2001 11:41 AM  
To: McMaster, Jack; Lukas, Frank; Mohebbi, Afshin; Lau, Ross; Casey, Greg; Heil, William (Bill); 'Louwes, Jan'  
Cc: Gilmore, Shaun  
Subject: RE: Discussions regarding business opportunities with Flag Telecom

agreed. as we discussed we should always stay together between Q and KQIP when it comes to certain customers such as Flag, 360, C&W, L3, Global Crossing, etc.

Afshin

-----Original Message-----

From: McMaster, Jack [mailto:Jack.McMaster@kpnqwest.com]  
Sent: Wednesday, January 03, 2001 8:06 PM  
To: Lukas, Frank; Mohebbi, Afshin; Lau, Ross; McMaster, Jack; Casey, Greg; Heil, William (Bill); 'Louwes, Jan'  
Subject: RE: Discussions regarding business opportunities with Flag Telecom

At the very least we should make sure that if it turns out that Ross needs the Asia capacity that KQ gets the benefit of a Euro order without having to take transatlantic capacity that we do not need. Let's stay very close together on this. Flag needs this deal badly and the leverage is with us.  
#

Jack

-----Original Message-----

From: Lukas, Frank [mailto:Frank.Lukas@qwest.com]  
Sent: Wednesday, January 03, 2001 10:35 PM  
To: Mohebbi, Afshin; Lau, Ross; McMaster, Jack; Casey, Greg; Heil, William (Bill); 'Louwes, Jan'  
Subject: Discussions regarding business opportunities with Flag Telecom

Gentlemen,

We met to discuss all the different business opportunities that we have under discussion with Flag Telecom.  
The following is a summary.

1. North Asia Ring Transaction:

\$175 M

Qwest has negotiated to purchase from Flag one fiber pair on North Asia Ring  
timing of contract: now

2. Europe Transaction

\$30 M

Flag and KPNQwest have been working on a deal where Flag would buy dark fiber in Europe plus co-location from KPNQwest and Flag would offer in return, wavelength capacity on FA-1 trans-Atlantic cable, and/or capacity on the older Flag Europe-Asia cable.  
timing of contract: 1Q 2001

3. US Transaction

[here there has been some serious mis-communication]  
Qwest Wholesale believed that Flag was about to release an RFP for a US network valued at \$40-\$50 M (OC-48 IRU's linking seven POP's around US).  
Flag (Ed McCormack) has clarified that no RFP is imminent, and the earliest one would come out would be end of 2Q 2001. Flag also indicated that they are not looking to build an OC-48 network but a much more limited (couple of STM-1's) network of IP routers that would be part of their wholesale IP offering.  
They said that they would be happy to send the RFP to Qwest to supply this network, but that it would be much less than \$40- \$50 we had expected. Also, they indicated that any US network would have to be run by Verizon (which is 28% investor in Flag).

Conclusion:

Initially, we thought there might be \$70 - \$80 M of offset sales to Flag that Qwest and KPNQwest could attain over the 2001-2002 period. We thought that a starting position would be to ask Ed McCormack for reciprocal commitment to purchase \$80 M of Europe and US network over 2001 - 2002.

Based on what we have learned from Flag, it looks like they cannot make a commitment to \$80 M or anything approaching that. In fact they have indicated that they are not in the position to swap anything for Flag North Asia Loop at pre-sales pricing because they need the money to pay their supplier Alcatel.

Next Steps:

We need to hold a conference call to review and have someone from the Senior Team (Ross and/or Afshin together with Jack perhaps) call Ed McCormack and get his best shot.

Our leverage is highest before we sign a deal for North Asia Ring and while we are still in pre-sales mode. They had hoped that we could announce our deal at PTC in the week of Jan. 14 but that looks like a long shot at this point.

Conference call:

We have set a conference call tomorrow (Thurs. Jan. 4).

Time: 7 am Denver, 8 am Central, 9 am Eastern, 3 pm Netherlands, 10 pm Hong Kong

Dial in: Domestic: 877 847-9224  
International: 630 424-7785  
Passcode: 6947799

Frank.

Frank Lukas  
VP, International & Govt. Systems  
Network Operations  
(703) 363-3725 work  
(703) 622-2469 mobile  
frank.lukas@qwest.com

---

**From:** Mohebbi, Afshin  
**Sent:** Saturday, March 24, 2001 9:44 AM  
**To:** Hoaglund, Roger; Eveleth, Bill  
**Subject:** FW: Global Crossing Deal

**Importance:** High

fyi;

afshin

-----Original Message-----

**From:** Casey, Greg  
**Sent:** Friday, March 23, 2001 3:47 PM  
**To:** Mohebbi, Afshin  
**Subject:** FW: Global Crossing Deal  
**Importance:** High

fyi

-----Original Message-----

**From:** Dalton, Joe  
**Sent:** Friday, March 23, 2001 3:41 PM  
**To:** Casey, Greg  
**Subject:** Global Crossing Deal  
**Importance:** High

Greg,

What we had this AM. GC had approved \$100M deal with us made up of \$50M metro, \$25M un-reg (waves) and \$25M Europe. Purchase was \$120M East Asia Crossing (\$20M PC1 Q3 swap + \$100M).

Issues: 1. Based on Ross's comments we need to get a better price on East Asia Crossing.  
2. I asked Susan to increase the deal with a PC1 purchase.  
3. We can't get straight on the Metro IRUs.

Here's the latest idea. GC agreed to \$110M on EAC (Ross should be happy as this is about the same as C2C with backhaul). So we buy \$110M EAC with \$20M PC1Q3 + \$90M, also we buy \$30M PC1 (price is \$1.5M/stm1 and they bring it to all major cities on the west coast).

They up their purchase to \$45M un-reg waves, \$45M Europe\* and they do a binding \$30M MOU for metro IRUs. The \$30M metro IRUs would have some stipulations that we would save them money etc., but we could book immediately when we decide on how.

\*The Euro capacity can be \$14M TAT14 backhaul and the balance in Euro rings (must be portable to Dark Fiber). We could offer the Euro ring we bought in Q4 but would need to be able to swap for Dark Fiber as well.

Its getting more complex but they want to finish tonight. Call me and let me know what you think.

Joe

Tom Stephens

From: mark.iwan@us.andersen.com  
 Sent: Wednesday, April 18, 2001 9:59 AM  
 To: wtomstephens@qwest.net  
 Subject: Qwest Audit Committee Call for Q1

Tom

I am wondering if we should chat prior to the meeting. There are several items I would like to make you aware of so you can ask the right questions on the call.

My phone number is 303 291 9160.

\*\*\*\*\*Internet Email Confidentiality Footer\*\*\*\*\*

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1<sup>st</sup> Qtr Items

- 1) IRU transaction in 1<sup>st</sup> Qtr Winstar, Calif, (WholeSale)
  - a) cost recovery accounting
  - b) Robin trying to get
  - c) time to \$300 expense 180 reserve

- 2) Non-monetary trades
  - a) 12% for route (Global Services)
    - check for check last year
    - \$105mm revenue booked
    - this one stinks
    - 10% of EBITDA

- 3) Directors Dex
  - 1200 books & publications
  - Public book in Q1 (summary)
  - 13 month book
  - spending money to book returns

- 4) The sky is falling

QECX004686

- 5) Russel Nino to
- 6) Greg Casey, deels (he has disappeared)

## QWEST COMMUNICATIONS INTERNATIONAL INC.

Audit Committee of the Board of Directors

October 29, 2001

A telephonic meeting of the Audit Committee of the Board of Directors (the "Committee") of Qwest Communications International Inc. (the "Corporation") was held Monday, October 29, 2001, commencing at 1:05 P.M. (Denver time).

Present: L.G. Alvarado, J.L. Haines, P.S. Hellman and W.T. Stephens; Mr. Stephens presiding. Also present: R.R. Szeliga, Executive Vice President - Finance and Chief Financial Officer of the Corporation; R. Noles, Vice President - Internal Audit of Qwest Services Corporation ("QSC"), Y.A. Rana, Vice President, Senior Associate General Counsel and Assistant Secretary of the Corporation, M. Schumacher, Vice President and Controller of QSC; and M. Iwan of Andersen LLP ("Andersen"), the Corporation's auditors.

Ms. Szeliga led a discussion regarding the accounting for certain transactions in prior periods. Ms. Szeliga informed the Committee none of the Corporation's Finance Department, Andersen and she herself had been aware of certain terms of the transactions during the periods in which they occurred. Ms. Szeliga told the Committee that, based upon, among other things, the fact that each of the Corporation's Finance Department, Andersen and she herself were previously unaware of certain terms of the transactions, and upon the size of the transactions, it was her view that the Corporation did not need to take any action with respect to accounting or financial reporting for those transactions. Mr. Iwan stated that Andersen agreed with Ms. Szeliga's view of the same. Ms. Szeliga also informed the Committee that she had discussed the matter with J.P. Nacchio, Chairman and Chief Executive Officer of the Corporation and D.S. Tempest, Executive Vice President, General Counsel, Chief Administrative Officer and Secretary of the Corporation, including her assessment of the matters and the reasons for the same, and that Mr. Nacchio and Mr. Tempest were comfortable with Ms. Szeliga's assessment. The Committee was comfortable with the recommendations and positions taken by management based upon, among other things, the recommendations and discussions with Ms. Szeliga and Mr. Iwan.

The Committee requested that management perform a thorough review of its relevant policies and procedures and report back to the Committee at the next meeting.

Upon motion duly made and seconded, the meeting was adjourned at 2:15 P.M. (Denver time).

  
For the Committee

QECX001178



## QWEST COMMUNICATIONS INTERNATIONAL INC.

## Audit Committee of the Board of Directors

December 5, 2001

A meeting of the Audit Committee of the Board of Directors (the "Committee") of Qwest Communications International Inc. (the "Corporation") was held Wednesday, December 5, 2001, commencing at 7:05 A.M. (Denver time) in the Corporation's Board Room, 1801 California, 52<sup>nd</sup> Floor, Denver, Colorado.

Present: Committee members L.G. Alvarado, J.L. Haines, P.S. Hellman (present by telephone) and W.T. Stephens; Mr. Stephens presiding. Also present for the entire meeting (other than the executive sessions): R.R. Szeliga, Executive Vice President and Chief Financial Officer of the Corporation, J. Kozlowski, to be appointed (effective January 2002) Vice President - Internal Audit of Qwest Services Corporation ("QSC"), Y.A. Rana, Vice President, Senior Associate General Counsel and Assistant Secretary of the Corporation, M. Schumacher, Vice President and Controller of Qwest Corporation, E. Adelman, Director - Internal Audit Services of QSC, and M.M. Iwan of Andersen LLP ("Andersen"), the Corporation's auditors. Present for a portion of the meeting: J.P. Nacchio, Chairman and Chief Executive Officer of the Corporation, D.S. Tempest, Executive Vice President, General Counsel, Chief Administrative Officer and Secretary of the Corporation and R.N. Baer, Senior Vice President, Deputy General Counsel and Assistant Secretary of the Corporation.

The Committee dispensed with the reading of the minutes of the meetings of the Committee on October 24, 2001, October 26, 2001 and October 29, 2001 and such minutes were approved.

The Committee discussed the proposed agenda for the meeting and made certain changes.

Ms. Szeliga introduced Mr. Kozlowski and Mr. Adelman and informed the Committee that Mr. Kozlowski was the Corporation's new general auditor.

Ms. Szeliga and Mr. Schumacher led a discussion regarding current accounting issues including charges in accounting for goodwill, a potential restructuring reserve and merger costs. With respect to goodwill, the Committee instructed management to consult with the Committee before retaining an outside appraisal firm and to provide regular status reports to the Committee. With respect to the restructuring reserve, Ms. Szeliga discussed with the Committee the implications of any reserve, including credit rating implications and alternatives. The Committee discussed these implications and made recommendations to management.

Mr. Schumacher distributed to the Committee a document, which is attached to these minutes as Exhibit A, describing the Committee's satisfaction of its obligations

under its Charter. The Committee also reviewed the Charter, which had been previously distributed and is attached to these minutes as Exhibit B. The Committee determined that it had discharged its duties under the Charter, proposed certain amendments to the Charter and instructed management to propose those changes to the Board.

The Committee requested Mr. Kozlowski to review the Corporation's procedures with respect to internal audit matters and report back to the Committee.

The Committee discussed the possibility of a finance committee of the Board, and was of the view that the Board should consider creating a finance committee.

Mr. Schumacher led a discussion regarding the schedule for year-end financial statements and discussed with the Committee a document entitled "Year End Calendar of Events," which was previously distributed and is attached to these minutes as Exhibit C.

Ms. Szeliga led a discussion regarding the internal control process and discussed with the Committee a document entitled "Internal Control and Process Review," which was previously distributed and is attached to these minutes as Exhibit D. The Committee determined that the steps taken by management were appropriate. Mr. Stephens informed the Committee that he had read the detailed policies related to the same and in his view they were comprehensive and appropriate.

Mr. Kozlowski led a discussion regarding the internal audit plan for 2002 and discussed with the Committee a document entitled "2002 Internal Audit Plan Overview," which was previously distributed and is attached to these minutes as Exhibit E. The Committee discussed the internal audit plan, including resources and audits to be performed, and determined it was adequate.

Messrs. Nacchio, Tempest and Baer joined the meeting.

**REDACTED**

Ms. Szeliga and Messrs. Tempest, Baer, Rana, Schumacher, Kozlowski, Adelman and Iwan left the meeting.

The Committee met in executive session.

Messrs. Kozlowski, Adelman and Iwan rejoined the meeting and met in executive session with the Committee.

Upon motion duly made and seconded, the meeting was adjourned at 10:30 A.M. (Denver time).

  
For the Committee

QECX002514

**Exhibit A**

| <b>Audit Committee Responsibilities</b>   | <b>Responsibility Addressed In<br/>Following Meetings:</b>                                  |
|---|---|
| <b>Financial Reporting</b>  |   |
| 1. Review the Company's annual financial statements, including discussion of any unusual or non-recurring items, the nature and substance of significant reserves, and important judgments on accounting estimates. Discuss annual audit results, including audit adjustments not reflected in the financial statements, and the auditors' reports with the Company's independent public accountants. | January 22, 2001  |
| 2. Meet as required with in-house counsel to discuss legal matters that may have a material impact on the financial statements. If appropriate, meet with outside counsel.  | Counsel present at each meeting.  |
| 3. Review accounting principles applied in financial reporting and to any changes from principles followed in prior years.  | January 22, 2001  |
| 4. Consider the independent public accountants' judgment about the quality and appropriateness of the Company's accounting principles and underlying estimates and other significant decisions made by management as applied in its financial reporting.  | January 22, 2001<br>February 7, 2001<br>April 20, 2001<br>July 23, 2001<br>October 24, 2001 |

QECX002515

QECX002516

| Audit Committee Responsibilities   | Responsibility Addressed In Following Meetings:  |
|--|--|
| 5. Review with financial management and the independent public accountants the quarterly financial results prior to its filing on Form 10-Q. The Committee Chair may represent the entire Committee for purpose of this review.  | April 20, 2001<br>May 2, 2001<br>July 23, 2001<br>July 25, 2001<br>October 24, 2001<br>October 26, 2001  |
| <u>Independent Public Accountants</u>  |  |
| 6. Recommend appointment of independent public accountants annually to the Board of Directors, considering independence and effectiveness. On an annual basis, the Committee should review and discuss with the independent public accountants all significant relationships the accountants have with the Company to determine the accountants' independence.       | January 22, 2001—discussed auditor's relationships with Company and related impact on independence.<br>February 7, 2001—recommended appointment of Andersen as 2001 independent auditors.                                      |
| 7. Annually, review audit plans and proposed fees with the independent public accountants and evaluate the adequacy of the proposed audit scope.   | October 24, 2001   |
| 8. Review with management and the independent public accountants the overall adequacy and effectiveness of internal controls, policies, and procedures, including computerized information system controls and security. Also, annually review management's responses to matters covered by the Company's independent public accountants' letter of recommendations. | February 7, 2001—Andersen led discussion of internal controls.<br>(Independent public accountants' letter of recommendations not issued.)<br><br>December 5, 2001—planned discussion of "Internal Control and Process Review." |

QECX002517

| Audit Committee Responsibilities  | Responsibility Addressed In Following Meetings:   |
|---|---|
| 9. Review with independent public accountants the items required to be communicated to the Committee by generally accepted auditing standards.  | February 7, 2001  |
| <u>Internal Audit</u>   |   |
| 10. Annually review the activities and organizational structure of the internal audit function.   | February 7, 2001—discussed 2000 internal audit results.<br>July 25, 2001—updated audit plan.<br>October 24, 2001—updated audit plan.<br>December 5, 2001—planned discussion of 2002 internal audit plan.  |
| 11. Review the effectiveness of the internal audit function.  | February 7, 2001—discussed 2000 internal audit results.<br>July 25, 2001—updated audit plan.<br>October 24, 2001—updated audit plan.<br>December 5, 2001—planned discussion of 2002 internal audit plan.  |
| 12. Review summaries of internal audit reports and management's responses.  | July 25, 2001<br>October 24, 2001   |
| <u>Other</u>  |   |
| 13. Review and assess any other matters relating to the company's internal controls, accounting, or financial reporting, as it deems necessary. | SEC correspondence—discussed July 23, 2001.<br>Employee benefit plan trusts—discussed October 24, 2001.<br>Accounting issues—discussed at each quarterly meeting in connection with earnings releases.<br>Affiliate transactions—discussed October 24, 2001.<br>Accounting for certain transactions—discussed October 29, 2001. |

QECX002518

| Audit Committee Responsibilities   | Responsibility Addressed In Following Meetings:   |
|--|---|
| 14. Meet with the independent public accountants, internal audit, and management in separate executive sessions to discuss any matters that the Committee or these groups believe should be discussed privately. | As deemed necessary in various Committee meetings, principally in the quarterly meetings associated with earnings releases. |
| 15. Provide, as necessary, such other advice or input to actions suggested or contemplated by management, which may be within the Committee's scope of responsibility.   | As deemed necessary in various Committee meetings.  |
| 16. Annually assess the Committee's compliance with the duties and responsibilities outlined in the Charter.   | December 5, 2001  |
| 17. Review and propose amendments, as appropriate, to the Charter to the Board of Directors.   | Not applicable for 2001.  |

QECX002519

**Exhibit B**

**Qwest Communications International Inc.  
Audit Committee of the Board of Directors  
Charter**

|                            |   |
|----------------------------|---|
| <b>OBJECTIVES</b>          | The purpose of the Committee is to exercise its authority to form committees to exercise such authority, powers and duties as may be delegated from time-to-time.   |
| <b>SCOPE OF ACTIVITIES</b> | The Committee's duties are clearly oversight and monitoring and in carrying out such duties acts in reliance on senior financial management and the independent public accounts.  |
| <b>PURPOSE</b>             | <p>The Committee's primary duties and responsibilities are to:</p> <p>Serve as an independent and objective party to monitor the Company's financial reporting and internal control system;</p> <p>Review and appraise the effectiveness of the Company's independent public accountants and internal auditing department;</p> <p>Provide an open avenue of communication among the independent public accountants, financial and senior management, the internal auditing department, and the Board of Directors; and</p> <p>Oversee the relationship with the independent public accountants and ensure that the independent public accountants are ultimately accountable to the Board of Directors and the Committee, as representatives of the shareholders.</p> <p>The Committee will primarily fulfill these responsibilities by performing the activities outlined in Section IV of this Charter.</p> |
| <b>COMPOSITION</b>         | <p>The Committee shall be appointed by the Board of Directors and shall be composed of three or more Directors, each of whom are independent of management and free from any relationships that would interfere with the exercise of independent judgment. The Board of Directors shall appoint the Chair of the Committee.</p> <p>All members of the Committee shall have a working familiarity with basic finance and accounting practices, and at least one member of the Committee shall have accounting or related financial management expertise.</p>   |

QECX002520

QECX002521

**TERM OF OFFICE** Members of the Committee shall serve at the discretion of the Board of Directors or until their successors are appointed.

**MEETINGS** The Committee shall hold a minimum of three regular meetings each year and such additional meetings as may be deemed necessary by the Committee. Minutes of each meeting shall be taken by the corporate Secretary or his or her delegate and circulated for approval at the next succeeding meeting of the Committee. The Chairman or Committee member shall report to the full Board of Directors the actions taken at each meeting and shall cause minutes of each meeting to be submitted to the Board of Directors.

**ATTENDANCE** Attendance at regular meetings may include, as requested, the Company's independent public accountants, Chief Financial Officer, General Counsel, Corporate Controller, Audit Director, Corporate Secretary, and/or other members of the Company's management as circumstances require.

**DUTIES AND  
RESPONSIBILITIES**

In meeting its responsibilities, the Committee shall perform the following:

Financial Reporting

1. Review the Company's annual financial statements, including discussion of any unusual or non-recurring items, the nature and substance of significant reserves, and important judgments on accounting estimates. Discuss annual audit results, including audit adjustments not reflected in the financial statements, and the auditors' reports with the Company's independent public accountants.
2. Meet as required with in-house counsel to discuss legal matters that may have a material impact on the financial statements. If appropriate, meet with outside counsel.
3. Review accounting principles applied in financial reporting and to any changes from principles followed in prior years.
4. Consider the independent public accountants' judgment about the quality and appropriateness of the Company's accounting principles and underlying estimates and other significant decisions made by management as applied in its financial reporting.

QECX002522



5. Review with financial management and the independent public accountants the quarterly financial results prior to its filing on Form 10-Q. The Committee Chair may represent the entire Committee for purpose of this review.

Independent Public Accountants

6. Recommend appointment of independent public accountants annually to the Board of Directors, considering independence and effectiveness. On an annual basis, the Committee should review and discuss with the independent public accountants all significant relationships the accountants have with the Company to determine the accountants' independence.
7. Annually, review audit plans and proposed fees with the independent public accountants and evaluate the adequacy of the proposed audit scope.
8. Review with management and the independent public accountants the overall adequacy and effectiveness of internal controls, policies, and procedures, including computerized information system controls and security. Also, annually review management's responses to matters covered by the Company's independent public accountants' letter of recommendations.
9. Review with independent public accountants the items required to be communicated to the Committee by generally accepted auditing standards.

Internal Audit

10. Annually review the activities and organizational structure of the internal audit function.
11. Review the effectiveness of the internal audit function.
12. Review summaries of internal audit reports and management's responses.

Other

13. Review and assess any other matters relating to the company's internal controls, accounting, or financial reporting, as it deems necessary.

14. Meet with the independent public accountants, internal audit, and management in separate executive sessions to discuss any matters that the Committee or these groups believe should be discussed privately.
15. Provide, as necessary, such other advice or input to actions suggested or contemplated by management, which may be within the Committee's scope of responsibility.
16. Annually assess the Committee's compliance with the duties and responsibilities outlined in the Charter.
17. Review and propose amendments, as appropriate, to the Charter to the Board of Directors.

Exhibit C



|             |   |
|-------------|---|
| January 23  | Earnings Release Review with Audit Committee  |
| January 30  | 4th Quarter 2001 Earnings Release             |
| February 20 | 10K Review with Audit Committee               |
| March 15    | 10K Filed with SEC                            |
| March 15    | Printing of Annual Report and Proxy Statement |
| May 15      | Share Holder Meeting                          |

QECX002525

QECX002526



### Project Scope

- Review processes associated with complex sales transactions
- Complex sales transactions defined as meeting at least one of the following criteria:
  - Incorporate reciprocal transactions
  - Results in an extended commitment
  - Results in one time, up front revenue

### Procedures Performed:

- Interview cross functional groups involved in process
- Document current process
- Review documents for potential accounting implications on 2000-2001 transactions
- Identify risks and gaps
- Summarize observations & recommendations

QECX002528

QECX002527

| Internal Control and Process Review  |   |
|--|---|
| Observation  | Recommendation  |
| <ul style="list-style-type: none"> <li>• Policies and procedures have been developed in an ad hoc fashion by various groups</li> <li>• Approval processes informally occurs at various stages of contract negotiation and execution</li> <li>• Single point of deal responsibility for "cradle to grave" managed informally by price offer management and others depending on transaction</li> </ul> | <ul style="list-style-type: none"> <li>• Formally document and communicate policies and procedures for all types of complex transactions</li> <li>• Implement "Right to negotiate" approval process w/executive management</li> <li>• Implement formal sign off process by key stakeholders and executive management</li> <li>• Require a business case template be used for all complex sales transactions</li> <li>• Appoint deal facilitator accountable for all aspects of the transaction</li> <li>• Develop and implement a centralized sales opportunity tracking tool that monitors deals through contractual implementation</li> </ul> |

QECX002529

- Partial Implementation in 4Q
  - IRU Transactions
  - Executive Approval
- Complete implementation by end of 1st Quarter

1044

QECX002530

**Qwest**      **Audit Services**      **2002 Internal Audit Plan**

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**2002 Internal Audit Plan**

**Overview**

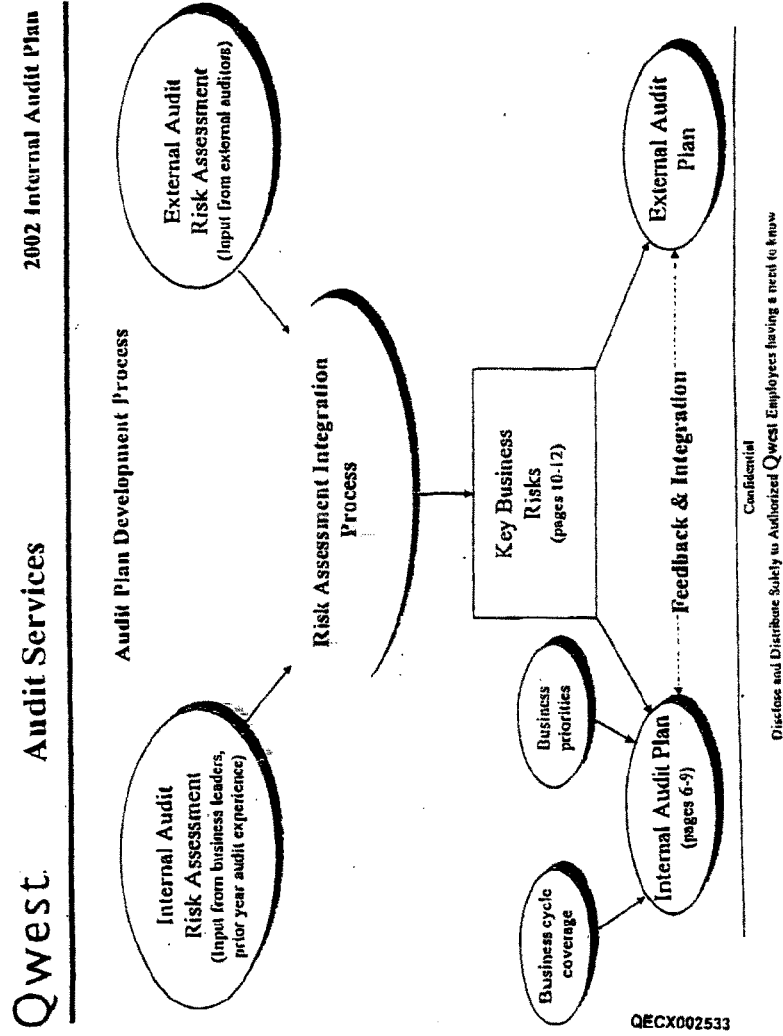
**Eric Adelman, Acting General Auditor**

**December 5, 2001**

**Exhibit E**

**QECX002531**

**QECX002532**

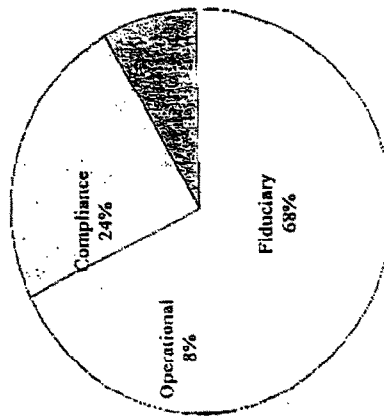




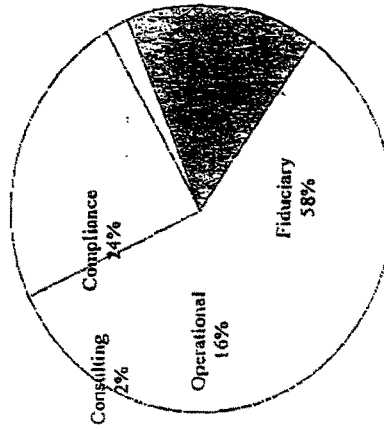
**Qwest      Audit Services      2002 Internal Audit Plan**

**Audit Type Comparison**

**2002 Plan Hours**



**2001 Estimated Hours**



The 2002 Audit Plan focuses greater resources on basic controls through Fiduciary and Compliance audits.

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# Qwest

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## Audit Services

### 2002 Internal Audit Plan

#### Audit Types

**Compliance:** Primary objective is to provide reasonable assurance that adequate processes and controls are in place and working effectively to ensure that the actions of company employees and agents are in compliance with company policies, laws and regulations.

**Fiduciary:** Primary objective is to provide reasonable assurance that adequate processes and controls are in place and working effectively to ensure that company assets are properly safeguarded and management information is accurate, reliable and has integrity.

**Operational:** Primary objective is to provide reasonable assurance that adequate processes and controls are in place and working effectively to ensure that company goals and objectives are successfully achieved, and operations are efficient and effective.

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QECX002535

# Qwest      Audit Services      2002 Internal Audit Plan

## Audit Plan Summary

|             | <u>Staff<br/>Hours</u> | <u>%</u> | <u>FTEs</u> |
|-------------|------------------------|----------|-------------|
| Compliance  | 6,800                  | 24       | 4           |
| Fiduciary   | 19,100                 | 68       | 12          |
| Operational | <u>2,200</u>           | <u>8</u> | <u>2</u>    |
| Total       | 28,100                 | 100      | 18          |

### 2002 Budget:

|                    |          |
|--------------------|----------|
| Audit Staff        | 18       |
| Directors          | 5        |
| Operations Support | <u>2</u> |
| Total              | 25       |

2002 Budget reflects reduction of 5 auditors and 1 support employee from beginning of the year 2001.

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QECX002536

**Compliance Plan Overview**

*Audits cover 24% of total plan hours and address the following areas:*

- Procurement policy and practices
- Vendor and contractor expenditure reviews
- Sales practices for employee and business partner channels
- Customer care practices in call centers
- Quarterly financial reviews
- 272 Affiliate price testing
- Telephone number assignment and pooling
- Tariff price compliance
- Customer privacy policies
- International policies and laws

QECX002537

**Fiduciary Plan Overview**

*Audits cover 68% of total plan hours and address the following areas:*

- Follow up on large or unique transaction processes
- Billing and revenue assurance
- Revenue adjustments
- Bad debt and account receivable management
- Sales compensation for employees and business partners
- Marketing expenses
- Capital budgeting management
- Procurement and vendor pricing
- Network inventory management
- Network capacity utilization
- Network facility real estate site selection

QECX002538

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**Fiduciary Plan Overview (cont'd)**

*Audits cover 68% of total plan hours and address the following areas:*

- Treasury operations and cash flow management
- IT system and people resource allocation
- IT configuration management
- IT capitalization vs. expense policies
- Information security policy and risk assessment
- Wireless handset inventory controls
- External auditor independence

Operational Plan Overview

*Audits cover 8% of total plan hours and address the following areas:*

- Network technology selection
- Service quality initiatives
- Worldwide network call center consolidation
- IT software lifecycle management and system reviews
- Finance transformation

1053

QECX002540

**Qwest**      **Audit Services**      **2002 Internal Audit Plan**

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**Key Business Risks Summary**

- |                                    |   |
|------------------------------------|---|
| 1. Governance                      | Risks associated with the company's ability to effectively establish the goals, control structures and alignment within and across the business units to enable achievement of business objectives.                 |
| 2. Efficiency and effectiveness    | Risks related to the company's ability to continually improve the efficiency and effectiveness of its key business processes.   |
| 3. Technology deployment           | Risks related to the company's ability to develop and deploy key technologies needed to (a) deliver products and services to customers, and (b) improve the efficiency and effectiveness of key business processes. |
| 4. Customer service & satisfaction | Risks associated with the company's ability to deliver products and services in a manner that meets or exceeds customer expectations with respect to timeliness and quality.  |
| 5. Vendor/supplier management      | Risks related to the company's ability to maintain ethical, objective, arms-length relationships with its vendors and suppliers and effectively manage their performance to meet contractual commitments.           |
| 6. Billing & revenue assurance     | Risks associated with the company's ability to accurately and timely bill customers for all of its services, including appropriate revenue recognition.   |

QECX002541



**Key Business Risks Summary**

## 7. Information integrity

Risks associated with the accuracy and integrity of the company's financial and operational books and records, including information reported to the public as well as information used to manage the business.

## 8. Long distance readiness and ongoing regulatory compliance

Risks related to the company's ability to meet the requirements necessary for regulatory approval to enter and operate in the inter-lata toll business within the Qwest fourteen state region, including operational readiness.

## 9. Product/service profitability

Risks related to the company's ability to quantify and understand the relevant costs and profitability of the products and services sold to customers given the increasingly competitive marketplace.

## 10. Cash flow management

Risks associated with the company's ability to plan and control operational and investing cash needs to meet business objectives.

## 11. Asset safeguarding

Risks associated with maintaining and protecting the company's physical and intellectual assets from theft, misuse, or misappropriation.

## 12. Security

Risks related to the company's ability to effectively manage and mitigate the growing physical and logical security risks inherent in achieving business objectives.

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**Key Business Risks Summary**

## 13. People resources

Risks related to the company's ability to effectively hire, train, develop and retain the best people resources available to help achieve business objectives.

## 14. Product/service delivery

Risks associated with the company's ability to develop and manage effective cross-functional business processes that can be relied upon to deliver products and services to customers in a manner that achieves business objectives.

## 15. Cybercenter management

Risks associated with the company's ability to achieve the aggressive business objectives for the cybercenters including implementation of reasonable business controls to enable delivery of desired results.

## 16. Network integration &amp; optimization

Risks related to the company's ability to effectively integrate the fiber and copper based telecommunications networks of the merged companies using optimal technologies on a cost effective basis.

## 17. Business development

Risks related to the company's ability to successfully achieve business growth through joint ventures, strategic relationships and business combinations along with implementing effective business controls to protect company interests.

QECX002543

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**From:** Dalton, Joe (VP)  
**Sent:** Thursday, December 27, 2001 11:13 AM  
**To:** Petrie, Deb  
**Subject:** FW: Important ; Q4'01 & Q1 '02 QWEST deal with C&W

FYI

-----Original Message-----  
**From:** Dalton, Joe (VP)  
**Sent:** Thursday, December 27, 2001 11:50 AM  
**To:** Mohebbi, Afshin; Martin, Gordon  
**Subject:** RE: Important ; Q4'01 & Q1 '02 QWEST deal with C&W

Afshin/Gordon,

I have discussed with both Gordon Hennessey, C&W and Ewoud. Bottom line is that the Euro capacity purchased by C&W from KQ for \$27M they don't need. C&W would like to sell Q the Euro capacity at \$30M based on a conversation between Jeff Von Deylen and the CFO at C&W. The imbalance comes from C&W's need to make a 10% margin for playing middleman on the transaction. Since C&W needs 10G of FAI capacity (not available until Q1) hence the swap between Q and C&W in Q1. I assume Q could pay C&W cash plus FAI for the KQ Euro rings.

I'm waiting for Gordon H. to call me back. He will tell me if there is ANYTHING they really need to purchase and any opportunity for Q to pre-pay for switch port capacity. If so they would be willing to do paperwork Q4 and cash in Q1 on a Qwest purchase.

If no C&W purchase requirements exist, there is no deal in my opinion.

I'll keep you informed.

Joe

-----Original Message-----  
**From:** Mohebbi, Afshin  
**Sent:** Thursday, December 27, 2001 10:37 AM  
**To:** Mogendorff, Ewoud; Dalton, Joe (VP)  
**Cc:** Chase, Susan (Wholesale); 'D.whitefoot@ciara.net'; Mohebbi, Afshin; Martin, Gordon; Von Deylen, Jeff; McMaster, Jack; Williams, Rhett; Zaal, Rene; Boer, Kees; Albers, Christian; Schreuder, Jan  
**Subject:** RE: Important ; Q4'01 & Q1 '02 QWEST deal with C&W

Ewoud:

I appreciate the fact that this helps KpnQwest make its financial objectives. But I fail to see the benefits to Qwest. In the last 2 quarters, we have done deals with C&W that have been in all cases in their favor. I am NOT doing another imbalance deal with C&W.

I encourage Joe, Susan, and Gordon to work with you on a win-win deal, but this thing sucks.

Afshin

QEC 203528

-----Original Message-----

From: Mogendorff, Ewoud [mailto:Ewoud.Mogendorff@kpnqwest.com]  
 Sent: Thursday, December 27, 2001 8:10 AM  
 To: 'Joseph L. Dalton (E-mail)'  
 Cc: 'susan.chase@qwest.com'; 'D.whitefoot@clara.net';  
 'afshin.mohebbi@qwest.com'; 'Gordon.Martin@qwest.com'; Von Deylen Jeff;  
 McMaster, Jack; Williams, Rhett; Zaal, Rene; Boer, Kees;  
 Albers,Christian; Schreuder, Jan  
 Subject: RE: Important ; Q4'01 & Q1 '02 QWEST deal with C&W

Joe,  
 Another omission; it has been agreed with C&W that they will require a \$3  
 mio imbalance in their favour to do the deal, making the deal value \$30mio.  
 Thanks,  
 Ewoud

> -----Original Message-----

> From: Mogendorff, Ewoud  
 > Sent: Thursday, December 27, 2001 3:50 PM  
 > To: 'Joseph L. Dalton (E-mail)'  
 > Cc: 'susan.chase@qwest.com'; 'D.whitefoot@clara.net';  
 > 'afshin.mohebbi@qwest.com'; 'Gordon.Martin@qwest.com'; Von Deylen Jeff;  
 > McMaster, Jack; Williams, Rhett; Zaal, Rene; Boer, Kees  
 > Subject: RE: Important ; Q4'01 & Q1 '02 QWEST deal with C&W

>  
 > Joe,  
 > I omitted the payment schedule;  
 > C&W to pay \$27mio tomorrow to KQ.  
 > Qwest to pay \$27 mio tomorrow to C&W.  
 > Ewoud

> -----Original Message-----

> From: Mogendorff, Ewoud  
 > Sent: Thursday, December 27, 2001 3:41 PM  
 > To: 'Joseph L. Dalton (E-mail)'  
 > Cc: 'susan.chase@qwest.com'; 'D.whitefoot@clara.net';  
 > 'afshin.mohebbi@qwest.com'; 'Gordon.Martin@qwest.com'; Von Deylen Jeff;  
 > McMaster, Jack; Williams, Rhett; Zaal, Rene; Boer, Kees  
 > Subject: Important ; Q4'01 & Q1 '02 QWEST deal with C&W

>  
 > Joe,  
 > As discussed,  
 > The deal looks as follows;  
 > KQ sells \$27mio to C&W (euroings) Q4 transaction,  
 > action underway; KQ standard contracts being prepared.  
 > C&W sells \$27 mio to Qwest (C&W capacity) Q1 '02 transaction;  
 > action required Q to determine what to purchase (Who will  
 > help from Q)  
 > Q to agree to C&W contracts (Who will help  
 > from Q)  
 > In addition C&W wants to have FA1 10 gig capacity (this to have an  
 > internal viable case to do this deal) suggest Qwest does an asset swap  
 > with C&W in Q1 when KQ has delivered the agreed FA1 capacity to Qwest.  
 >  
 > Give me a call!  
 >  
 > Ewoud

QEC 203529  
 QEC 203530

⇒ 7/13 Audit Committee 7:00

Szeliga, Robin

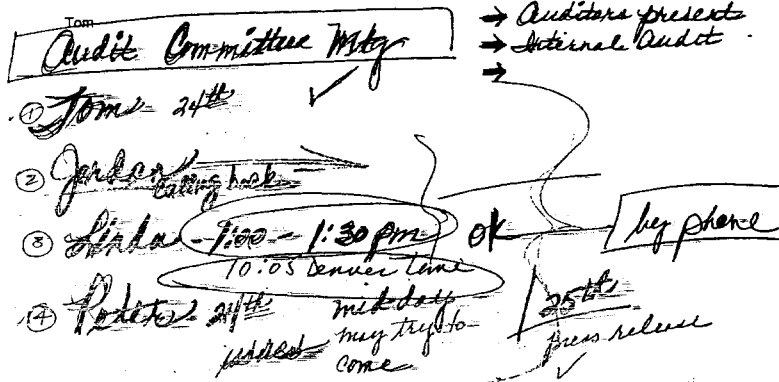
From: Tom Stephens [wtomstephens@qwest.net]  
 Sent: Saturday, January 12, 2002 9:08 AM  
 To: Szeliga, Robin; wtomstephens@uswest.net; phellman@nordson.com;  
 bert.barrett@bankofamerica.com; lgalvarado@alvaradoconstruction.com  
 Cc: Yash.Rana@qwest.com  
 Subject: RE: Replacement for VP Internal Audit

Robin,

The phone message I got from Mark indicated the reason for releasing earnings before the Audit Committee had a chance to have a face to face meeting and before it could report to the full Board was Joe's schedule and trying to beat another company who was going to announce. Those are unacceptable reasons to short cut what we had agreed we would do at our last meeting and it is not best practices. Let me repeat the minimum requirement of reviewing financials:

Material mailed out at least 48 hours ahead  
 Committee to review in face to face meeting with management and auditors  
 Committee reports to the Board

I suggest you put out a press release that moves the earning release back to after the Board meeting on Feb 13th. I also suggest you refer to the recent comments of the SEC about Audit Committee activities. We are in a fishbowl and I intend to follow the gold standard in our work. I will be in my office on Monday and suggest we poll the members of the committee for concurrence.



Propena - mid term draft -  
 vs.  
 final draft

⇒ final draft 48 hrs b4 Audit Committee seeing final draft:  
 released de +

1/14/02  
 FOIA Confidential Treatment Requested by Qwest Communications Int'l, Inc.

QEC 14144

Tom Stephens

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From: Hellman, Peter [phellman@nordson.com]  
 Sent: Thursday, October 25, 2001 8:43 AM  
 To: 'Tom Stephens'  
 Subject: RE: Qwest Audit Committee Meeting - October 24, 2001, 7:00 A.M.

Tom:

We did have a good conversation with Russell Knowles, Internal auditor. While he is not leaving because of anything at Qwest directly, a factor in his decision is the tone at the top and how that makes their job at corporate more difficult. Not that Joe is not saying the right things (make the numbers and do it the right way) but the line people including the divisional CFOs are only hearing make the numbers. In my opinion there are well known consequences for not making the numbers but no clear consequences for cutting corners. Until the consequences are equal the behavior will not change. Take Calpoint as an example. Management is proud that conservative accounting was used. In fact, it was only after the transaction appeared in the press, and there were several rounds of questions did it become known that a take or pay clause exists making the accounting mandatory. Finance people in the business unit were obscuring the appropriate facts both from AA and Robin to whom they directly report. As far as I can determine there were no consequences for their actions.

I suggested to Russell that he also meet with you and that an agenda for such a meeting might be to go over the AA risk assessment sheets that were not faxed to you. This would allow Russell to give his own risk assessment by income statement and balance sheet line item. I think it would take no more than 30 minutes. Given that you are going to be there tomorrow maybe it could be done then. He is with us until the end of October.

Best regards,

Peter

McDermott, Kris

---

From: Josenhans, Chuck A  
 Sent: Monday, January 28, 2002 11:18 AM  
 To: Kozlowski, James  
 Cc: Szeliga, Robin; Treadway, Bryan; Rana, Yash  
 Subject: Audit Committee Notes and Action Items

Jim:

Here is a quick summary of the takeaways from the Audit Committee meeting last Thursday from my notes:

- We will take special care in making sure there is no "cookie jar accounting" with reserves that may impact reported versus normalized results.
- We should expect some pointed questions in the next Board meeting about the business implications of writing off the Cybercenter costs
- By the next AC meeting, we should provide a list, in reasonable detail, of our investments and JV's. We may want to take this a step further and provide a more comprehensive view of our assets that are subject to periodic valuation and impairment reviews so the AC has a "one page" perspective on these areas.
- We need to report back to the AC with respect to the sponsor/investors in the SPE facility
- Pension fund accounting should stay in the Controller's organization
- Touch America A/R classification - should it be A/R trade?
- Chuck to report back to the AC on the business side of our bad debt experience
- Follow up on dark fiber acquired from companies in bankruptcy - Issue relates to contracts that can be rescinded by the bankruptcy courts. This is also a disclosure issue
- Qwest wireless marketing to stop calling Tom and/or his relatives at the dinner table
- Tom wanted to see a checklist of the discharge of the formal AC responsibilities
- Note for next year end = AC to review numbers first, followed by full board review of financials

From the Friday call:

- Brian to close loop on FAS 142 accounting treatment if not booked in Q1 2002

Chuck

To: 'Igalvarado@alvaradoconstruction.com'; 'phellman@nordson.com';  
'Bert.Barrett@bankofamerica.com'

Subject: RE: Telephonic Audit Committee Meeting - Friday, March 29, 2002 (10 AM Denver Time)

The situation is becoming very frustrating for me as I'm sure it is to you. I have urged PA to get involved and provide some leadership to sort out the right path forward. Based on the conversation I had with him last Friday and developments since then, it's my sense that he doesn't appreciate the need to drive some of the open questions to ground. It's also my sense that JN doesn't have a handle on the situation either.

I plan to talk to RS, DT, and JN tomorrow and pitch a fit over the lack of resolution of open issues this close to the filing deadline. My position continues to be that we call for full and fair disclosure as to issues where the SEC might not agree with Q's accounting.

My conclusions remain that while the company took some aggressive positions in 1999 and 2000, there was no intent to not comply with GAAP. The path I propose is one that calls for:

- Continued investigation of all transactions within the scope outlined by DT
- The "Gold Standard" on disclosure around all issues
- Closely monitor the SEC process and make sure management and the board agree on the right position to take as well as make sure we have sound and objective advice on these very complex accounting questions
- The most important goal for the company is to conduct ourselves in a way that will begin to regain the confidence of our many stakeholders
- With the intense pressure on management, the board and the committee need to be a calm source of wisdom and good counsel
- Be prepared to step in and take action if the process is not consistent with the very highest standards
- Turn this breakdown into a breakthrough that builds the kind of culture in Q that emulates the values we have discussed

Thank you all for your patience and hard work.

Tom

QECX004678